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# Standing Committee on Public Accounts

1987 and 1988 Report

1st Session, 34th Parliament  
38 Elizabeth II









LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

Queen's Park  
February 1989

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour  
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read "Ed Philip".

Ed Philip, M.P.P.  
Chairman.







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#### MEMBERSHIP AS OF WEDNESDAY, 26 OCTOBER 1988

**ED PHILIP**  
Chairman

**PETER ADAMS**

**SHELLEY MARTEL**

**BILL BALLINGER**

**CINDY NICHOLAS**

**SHIRLEY COLLINS**

**BRAD NIXON**

**DON COUSENS**

**GILLES POULIOT**

**JOAN FAWCETT**

**NOBLE VILLENEUVE**

---

**Douglas Arnott**  
Clerk of the Committee

**Wendy MacDonald**  
Research Officer





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## PREFACE

This report records the operations, activities, investigations, and conclusions of the Standing Committee on Public Accounts during the two-year period commencing January 1, 1987, and ending December 31, 1988. The issuing of a two-year report is a departure from usual practice. With the exception of the previous report, for 1985 and 1986, all foregoing reports have been annual; however, it was not possible to return to the annual report format in 1987 due to the provincial election in September 1987.

During the first half of 1987, the Standing Committee on Public Accounts, Second and Third Sessions, 33rd Parliament, had commenced a number of special studies and investigations. However, none of these had been concluded or reported on as of the dissolution of the 33rd Parliament. As such, they lapsed, and in November 1987, the newly appointed Committee undertook a new work plan focussing on the Provincial Auditor's 1987 Annual Report. This report does not seek to discuss the content of the previous Committee's investigations, given their incomplete status. In order to provide continuity in reporting, however, it was deemed appropriate to include a brief description of the previous Committee's activities in early 1987 (contained in the following section of this report).

The remainder of this report describes the work of the Committee from November 1987 to December 1988. This period was notable for its thorough coverage of the Auditor's 1987 Annual Report; for the Committee's adoption of a number of innovative procedures and approaches intended to increase its effectiveness; and for the scope and extent of the Committee's professional development and information dissemination activities.

The Committee reviewed fifteen sections of the Auditor's 1987 Annual Report, involving eight ministries, three agencies, and four sections addressing government-wide or legislative issues. In a major departure from past practice, the Committee adopted an approach of issuing interim reports on investigations as they were concluded, and then, later in the year, conducting follow-ups on the recommendations contained in those reports. In all, six interim reports and a special report were issued, covering nearly all of the Committee's investigations. This report consists of an overview of the Committee's procedures, operations, and professional development activities, summaries of the earlier reports, updates where appropriate, and any remaining matters not addressed in interim reports. Matters requiring no recommendation or comment are contained in this report for purposes of information and reference.

The Committee's professional development activities, described in the second chapter of this report, were varied and extensive. They included briefings and orientation upon the Committee's appointment in November 1987; attendance by the Sub-Committee at the Eighth Annual Conference of the Canadian Comprehensive Auditing Foundation, and by the Chairman at the Ninth Annual Conference; travel by the Committee to Ottawa and Washington in March 1987 to meet with its counterparts; and attendance by the Committee at the Tenth Annual Conference of the Canadian Council of Public Accounts Committees in July 1987. The topic of discussion at that conference was a set of model guidelines for public accounts committees, developed by a committee of which Ontario was a member. As well, the Chair of the Committee engaged in extensive educational activities, speaking on the work of the Committee at a number of civil service and other professional conferences during 1988.

The Committee expresses its thanks to the many public servants who have appeared before it as witnesses. Their willingness to share information and to respond to the Committee's concerns is greatly appreciated. The Committee wishes to particularly commend those ministries and agencies who responded fully and punctually to requests for reports contained in the Committee's Interim Reports.

The assistance and co-operation of the Provincial Auditor and his staff have, as always, contributed greatly to the Committee's work and its ability to fulfill its mandate. The Committee also wishes to express its appreciation and thanks to the Clerk, Mr. Doug Arnott, and the Research Officer, Ms Wendy MacDonald, for their excellent work on behalf of the Committee.



## SUMMARY OF COMMITTEE ACTIVITIES DURING 1987

During the first half of 1987, the Standing Committee on Public Accounts of the Second and Third Sessions, 33rd Parliament, continued its wide-ranging program of special studies and investigations which it had pursued through much of 1985 and 1986. In all, 15 meetings were devoted to these matters before adjournment for the summer recess in June 1987. Subsequently, the Committee travelled to Quebec City for the Ninth Annual Conference of the Canadian Council of Public Accounts Committees. The dissolution of the Legislature and the calling of an election in July 1987 brought an end to the Committee's work.

Although the Committee had commenced drafting some of its reports on its various investigations, none had been concluded as of its termination. In order to provide continuity, this report briefly describes the activities of the Committee during the first half of 1987, without commenting on the content of the Committee's investigations or findings.

During its first meeting, on January 15, 1987, held in camera, the Committee reviewed, then adopted its 1985 and 1986 Report. The following week, the Committee began consideration of the Convert-to-Rent Program of the Ministry of Housing. The program provides interest-free loans to qualified applicants to encourage the conversion of non-residential buildings to rental accommodations. The investigation had arisen from the concern of some members of the Committee that a \$3.5 million loan had been awarded which was of a questionable nature. During its meetings on January 22 and 29 and February 5 and 12, the Committee questioned witnesses from the Ministry of Housing about the program. The Committee had planned to widen the scope of its investigation later in 1987 to include questioning of witnesses from municipal governments and the private sector.

During the final months of 1986, the Committee had begun investigations into various investments made by IDEA Corporation before its dissolution at the end of June 1986. In 1987, it pursued these investigations, particularly with respect to a \$5 million investment by IDEA in a firm, Graham Software, that subsequently became insolvent. The Committee devoted almost a week of hearings to the matter during the winter recess (March 23 - 27, 1987). Upon commencement of the Third Session of the 33rd Parliament in May of 1987, the Committee continued its scrutiny of IDEA investments, and devoted some time on May 28 and June 4, 18, and 25 to the acquisition of relevant documents and the gathering of information. The Committee also worked in camera during some of those meetings to draft a report on its findings regarding Graham Software. The report, however, was not finalized as of the end of the session.

Another issue to which the Committee gave its attention was the quality and adequacy of court facilities in the province. As noted in the 1985 and 1986 Report, the Committee had passed a motion on June 12, 1986, calling for the Provincial Auditor to review problems with court facilities which had been cited in a special investigation by a CBC reporter, and to report back to the Committee by November 1986. The Committee later decided to defer the investigation to early 1987. On March 28, 1987, the Committee conducted a day of hearings on the issue, and decided to pursue the matter further later in 1987. The opportunity to consider the issue did not arise again during the remainder of the Committee's tenure.

During June 1987, the Committee also investigated a fund-raising event which had been held by the Member for Huron-Bruce, to determine whether public funds had been expended inappropriately. Some time was devoted during each of the meetings on June 4, 11, and 18 to discussion of the motion calling for the investigation. On June 25, the Committee questioned the Member from Huron-Bruce regarding the fund-raiser in question.

During July 5 - 9, 1987, the Committee, accompanied by the Clerk and the Research Officer, travelled to Quebec City to attend the Ninth Annual Conference of the Canadian Council of Public Accounts Committees. The conference was attended by representatives of the Public Accounts Committees of all jurisdictions in Canada except Saskatchewan, and was held coincident with the Annual Conference of Legislative Auditors.

The conference began with a round table presentation of the activities of each of the committees during the previous year. The subject of comprehensive auditing -- its background, characteristics, methods, strengths and weaknesses, and recent experiences -- formed the main theme of the conference. A number of papers were presented by various jurisdictions and discussed by the Council. Ontario presented a case study on "The Public Accounts Committee's Inquiry Into the Financing Arrangements for the Construction of a Domed Stadium", and contributed a written report on its activities during the previous year. A joint session was held with the legislative auditors, at which the topic of discussion was the "expectations gap" as it relates to legislative auditors and members of public accounts committees.

The Council established a sub-committee, consisting of representatives of the Public Accounts Committees of Canada, British Columbia, Newfoundland, and Ontario, to recommend guidelines to which all Canadian public accounts committees could adhere in order to enhance consistency in approaches and increase effectiveness. The sub-committee was to report to the



Tenth Annual Conference, in July 1988. This project is discussed further in the second chapter of this report, on "Orientation and Professional Development".

Following the provincial election of September 1987, a new Public Accounts Committee was appointed on November 23, 1987. The Committee devoted much of the remainder of 1987 to organizational activities and informational meetings. As well, the Sub-Committee attended the Eighth Annual Conference of the Canadian Comprehensive Auditing Foundation. These activities are discussed further in the chapter on "Committee Orientation and Professional Development". The Committee also developed its work plan for the first half of 1988, based on the Provincial Auditor's 1987 Annual Report which had been tabled on November 24, 1987. In December 1987, the Committee reviewed and approved the 1987-88 Estimates of the Provincial Auditor.



## COMMITTEE POWERS, PROCEDURES AND OPERATIONS

### Powers And Responsibilities Of The Committee

Standing Order 90 of the provisionally amended Standing Orders of the Ontario Legislative Assembly provides for the appointment of the Standing Committee on Public Accounts for the duration of each session of the Provincial Parliament. The Committee is empowered to review and report to the House its observations, opinions, and recommendations on the report of the Provincial Auditor and the Public Accounts. These documents stand permanently referred to the Committee as soon as they are tabled. The Committee may also examine, inquire, and report on matters referred to it by the Assembly. Pursuant to Standing Order 91 (provisional) and Section 35 of the Legislative Assembly Act, the Committee also has the power to send for persons, papers, and things as required.

The Committee's role is to hold the government and Crown agencies accountable for the spending of public funds. To fulfill this function, the Committee examines and reports to the Legislature on a wide range of matters, including:

- the reliability and appropriateness of information in the Public Accounts;
- the collection of and accounting for revenues;
- the maintenance of expenditures within the limits and for the purposes authorized by the Legislative Assembly;
- the adequacy of safeguards to protect assets from loss, waste, and misappropriation;
- the regard for economy in the acquisition of goods and services;
- the regard for efficiency in operations; and
- the effectiveness of programs in achieving their stated objectives.

The Committee also has some specific additional responsibilities:

- the annual review of the Estimates of the Office of the Provincial Auditor (carried out by the Committee on December 15, 1988, for the Auditor's 1988-89 Estimates);
- the examination by the Sub-Committee of the full Committee, in confidence, of the Premier's travel expenditures, with any questions or concerns to be brought forward to the full Committee for review, under a new procedure adopted by the Committee on October 23, 1986 (carried out by the Sub-Committee on July 4, 1988; no matters were identified requiring review by the full Committee); and
- the consideration of proposed changes to legislation related to legislative accountability.



## **Committee Membership and Resources**

The current Public Accounts Committee was appointed on November 23, 1987, shortly after the commencement of the First Session, Thirty-Fourth Parliament. Its membership of eleven is roughly proportional to the party representation in the Legislature, and consists of six Liberals, three New Democrats, and two Progressive Conservatives.

Since 1968, the Chair of the Committee has been a member of the Official Opposition. As such, the current Chair is a member of the New Democratic Party. The Chair of the Committee, or whoever is designated to carry out the functions of the Chair, is entitled to vote on motions only to break a tie.

In early 1985, the Committee elected an Official Opposition member as its Vice-Chair, on the understanding that, in order to maintain the proportional representation of political parties on the Committee, the Vice-Chair and, where applicable, the Acting Chair, should also be members of the Official Opposition. This is considered to preserve the political balance of the Committee, particularly in cases where a tie-breaking vote must be cast.

The Committee is assisted in the fulfillment of its various functions by the Provincial Auditor and his staff. As set out in Section 16 of the Audit Act, the Provincial Auditor attends meetings of the Committee in order to assist in planning the agenda, reviewing the Public Accounts and the annual reports of the Auditor, and reporting on matters referred to him by a resolution of the Committee. The Committee is also assisted in its work by a clerk from the Office of the Clerk and by research staff from the Legislative Research Service of the Legislative Library.

## **Committee Meetings and Witnesses**

The Committee meets regularly every Thursday morning when the Legislature is in session. Subject to the approval of the House, the Committee may meet more frequently when the House is in session and during the summer and Christmas recesses. Most Committee meetings are open to the public, although Committee reports are generally reviewed in camera. The Committee held a total of 52 public meetings in 1986, 22 public meetings in 1987, and 35 meetings in 1988, 13 of which were wholly or partly in camera.

When the Committee is reviewing the operations of government ministries, the deputy minister and senior ministry officials usually appear as witnesses to respond to questions raised by members. Where Crown agencies are under review, the chief executive officer and sometimes the chair of the board are called as witnesses. Traditionally it has been unusual for ministers or individuals from the private sector to appear as witnesses, although some of the Committee's past investigations have required their involvement.

### **Innovations to Committee Procedures and Operations**

During 1988, the Committee has developed a number of new procedures and approaches to its work which are intended to increase its effectiveness and strengthen the accountability cycle:

- **In-depth briefings and preparation:** With the assistance of its research staff, the Committee assesses the Auditor's findings and develops lines of inquiry prior to the hearing. This area has been expanded to build in formal briefing meetings prior to each investigation or session of investigations.
- **Frequent reports:** As noted earlier in this report, the Committee has moved to a system of frequent reports on matters as they are investigated, in addition to this report as issued in the past. This approach is felt to have a number of advantages:
  - the reports can be drafted while the investigation is still fresh in the Committee's mind;
  - the Committee can strengthen its follow-up by making recommendations on actions to be taken by the ministry, which can then be monitored, allowing a recall of the ministry if warranted, and a final report in the annual report;
  - the Committee can make its work public on an issue-by-issue basis over time, leading to enhanced media coverage and strengthened public awareness of the Committee's accountability work.
- **Increased follow-up:** As noted above, the use of frequent reports allows the Committee greater flexibility in its approaches to follow-up. The Committee's reports to date involve several different methods of follow-up:
  - planned visits to the psychiatric hospitals to inspect the extent to which the Ministry of Health has carried out its commitments and complied with the Committee's recommendations (deferred to 1989 for scheduling reasons, as discussed later in this report). The Committee has visited facilities in the past, but only as part of an initial investigation, not as an instrument of follow-up and compliance;
  - recommendations that the ministry or agency prepare reports for the Committee on progress and compliance, with the possibility of recall if warranted (for example, the sections of this report dealing with Sections 4.7, 4.12, 5.2, and 5.4 of the Auditor's 1987 Annual Report);
  - requests to the Provincial Auditor to monitor and assess compliance with recommendations.



- Increased integration with the work of other legislative committees: For example, the Committee urged that the Standing Committee on Social Development conduct an investigation of community housing and supports for ex-psychiatric patients. The proposed reforms to the Estimates process envisage close links between the Estimates Committee and the Public Accounts Committee. The Committee feels that this approach offers potential for efficient and effective use of scarce legislative resources and time.

The Committee expects that further modifications to its procedures and approaches will be adopted over time to enhance its impact and effectiveness and thus to strengthen legislative accountability.

### **Evolving Role of the Public Accounts Committee**

The growth of government spending in recent years and the increasing complexity of government activities mean that it is more important than ever to attain economy, efficiency, and effectiveness in government operations and programs. The Public Accounts Committee is striving to make a contribution to achieving that goal through its extensive work program and its search for new ways to more effectively carry out its work.

The Committee's investigations have covered a broad range of issues, on occasion establishing new boundaries to what might be considered traditional areas of inquiry. Some have involved issues of financial management and control, and of economy and efficiency in management. Others have assessed compliance -- for example, the extent to which the Ministry of Environment is complying with legislative wishes with respect to the proper enforcement of its pollution control regulations and its responsiveness to public complaints about pollution. Others have taken a wider view of value for money -- for example, the Committee's investigation of the impact of the combination of deficient psychiatric hospitals and inadequate community supports on mental health care in the province. The Committee is also seeking to strengthen the legislative accountability process through proposed reforms to the Estimates process.

The Committee has also sought to increase its effectiveness through an extensive program of orientation, professional development, and information dissemination. These initiatives are discussed in the following chapter.



## COMMITTEE ORIENTATION AND PROFESSIONAL DEVELOPMENT

### Introduction

Since its appointment, the Committee has devoted substantial time to educating itself about accountability issues and approaches used by its counterparts in other jurisdictions, in an effort to increase its effectiveness. Its initial meeting in late 1987 involved briefings and discussions on the history, operations, and procedures of the Committee and of the Office of the Provincial Auditor. The following week, the Chair, three members of the Committee, and staff attended the Eighth Annual Conference of the Canadian Comprehensive Auditing Foundation (CCAF) in Ottawa, November 30 - December 2. Information was subsequently provided to the Committee as a whole on the proceedings of the CCAF Conference (discussed further below). The Chair and staff also met with the other members of the Sub-Committee of the Canadian Council of Public Accounts Committees to discuss the study on "Guidelines for Public Accounts Committees" which the Sub-Committee was responsible for drafting on behalf of the Council.

On December 10, 1987, the Committee met with the former Chair of the Committee, Patrick Reid, to hear and discuss his views on the goals, responsibilities, and effective functioning of public accounts committees. Mr. Reid had served as Chair of the Committee from 1977 to 1984, and had played a leading role in strengthening public accounts committees as an instrument of legislative accountability.

The Committee's review of the Estimates of the Office of the Provincial Auditor on December 17, 1987, provided a further opportunity to review and discuss the operations of the Auditor's Office and the issues surrounding public sector auditing.

Early in March 1988, the Committee travelled to Ottawa and Washington to observe the operations of its counterpart accountability bodies. In Ottawa, the Committee met with the Public Accounts Committee of Canada, and observed a briefing meeting and a public hearing. The Committee also met with the Auditor General of Canada and was informed as to the operations and activities of his office. As well, the Committee met with officials of the Office of the Comptroller General of Canada to discuss their responsibilities and functions, so as to allow comparison with the Ontario government's less centralized approach to financial management and control, and to liaison with legislative accountability bodies.

In Washington, the Committee met with members of several committees of the House of Representatives, including the Government Operations Committee, the Oversight Sub-Committee of the Public Works Committee, the Appropriations Committee, and the Budget Committee. The Committee also met with staff agencies to Congress, including the Comptroller General and staff of the General Accounting Office, the Congressional Budget Office, and the House Budget Committee's staff. The meetings with the budget and funding committees and staff agencies were most useful to the Committee in its subsequent consideration of reforms to the Estimates process, regarding which it tabled a special report on June 2, 1988. As well, the Committee met with a member of a law firm to discuss the operation and regulation of the lobbying process in the United States, an issue pertinent to the Committee's investigations of conflict of interest matters. The Committee's findings and conclusions on procedural innovations and alternatives are set out in greater detail below.

During July 9 - 13, 1988, the Committee travelled to Halifax to attend the Tenth Annual Conference of the Canadian Council of Public Accounts Committees. The topic of discussion throughout the conference was the study on "Guidelines for Public Accounts Committees in Canada" which Ontario had assisted in drafting. The Guidelines were adopted as a working document of the Council subject to some minor changes.

During November 26 - 29, 1988, the Chair of the Committee and the Research Officer travelled to Montreal to attend the Ninth Annual Conference of the Canadian Comprehensive Auditing Foundation. The Chair was a speaker at a panel session and hence attended as a guest of the CCAF. A report on the proceedings of the conference was subsequently provided to the full Committee and is summarized below. The Chair and the Research Officer also met with the Sub-Committee of the Canadian Council of Public Accounts Committees to finalize the Guidelines for Public Accounts Committees as agreed at the Tenth Annual Conference and to develop follow-up material for the upcoming 1989 Conference.

During the year, the Chair of the Committee engaged in an extensive program of speeches and presentations to audiences both inside and outside the Ontario government, regarding the role and activities of the Committee. These educational activities are outlined at the end of this chapter.



## Conferences of the Canadian Comprehensive Auditing Foundation

The Canadian Comprehensive Auditing Foundation (CCAF) was established in 1980 to encourage better management and accountability in the public sector and to foster the development and application of comprehensive auditing in Canada. It is funded by the provincial and federal Auditors, most of Canada's leading accounting and management consulting firms, and various other bodies. The CCAF conducts an extensive program of research and consultation, and disseminates its findings through various means, one of the most prominent being its annual policy conferences. These provide a valuable opportunity to maintain awareness of current initiatives and trends in the areas of financial accountability and financial management and control. Accordingly, members and staff of the Committee attended both the Eighth Annual Conference, in November 1987, and the Ninth Annual Conference, in November 1988. Summaries of the proceedings of each of the conferences were subsequently prepared and distributed to the Committee.

The Eighth Annual Conference was held in Ottawa, November 29 - December 1, 1987. It was attended by a sub-committee of the Public Accounts Committee, consisting of the Chair and a member from each caucus, accompanied by the Clerk and the Research Officer. The main themes of the conference included the following (it should be noted that a number of sessions were held concurrently):

- The plenary session was devoted to a discussion of the findings of a major study by the CCAF regarding the evolution of comprehensive auditing. The study recommended a move to "management representations", or statements to accountability bodies by managers on their performance, the validity of which would be assessed and attested to by auditors in the same way as is currently done for financial statements.
- A panel composed of three federal Members of Parliament, including the Chair and the Vice-Chair of the federal Public Accounts Committee, spoke on the impact on accountability of parliamentary reforms to the committee system. It was suggested that the Estimates process was the weakest link in the parliamentary accountability cycle, and in the greatest need of reform, echoing concerns set out in the Provincial Auditor's 1987 Annual Report and later investigated and reported on by the Committee.
- Another session described a study on accountability in the federal public service being conducted at that time by Gordon Osbaldeston. The study was oriented towards identifying and reducing constraints and pressures on deputy ministers arising from competing and conflicting accountabilities.
- A panel composed of the Provincial Auditors of Ontario and Alberta spoke on a major study on control and accountability of transfer payments then being conducted by the CCAF. The current lack of accountability for these massive expenditures was noted, and the challenges of strengthened accountability were discussed.



- A final session discussed a recent federal initiative to reduce and streamline central administrative and financial controls and to shift from a front-end control system to an after-the-fact accountability system. The initiative, "Increased Ministerial Authority and Accountability", or IMAA, gives deputy ministers greater management autonomy but requires annual representations on performance to central control agencies. The initiative is directed to internal governmental systems and does not encompass any measures for parliamentary accountability.

The Ninth Annual Conference of the CCAF was held in Montreal, November 27 -29, 1988. It was attended by the Chair of the Committee, who was a speaker at one of the sessions, and by the Research Officer. The conference was devoted to building on and further discussing the concepts introduced at the previous year's conference, including the following main themes (again, a number of sessions were held concurrently and hence the list is incomplete):

- One theme involved the establishment of a framework for the auditing of effectiveness, comprising 12 different elements and arising from the CCAF publication, Effectiveness Auditing and Reporting in the Public Sector. Relevant sessions included a discussion of two recent reports by the Senate Committee on National Finance, one a review and endorsement of the effectiveness framework and the other applying it to a specific investigation by the Committee.
- Another theme was the promotion of the concept of management representations, as introduced at the previous year's conference. Several sessions were devoted to the practice and theory of making such representations, based on the use of the above-noted framework. Sessions included an update on the IMAA initiative discussed at the previous year's conference and a session setting out guidelines for making management representations.
- The conference also promoted the auditing of transfer payments as discussed in the CCAF's 1988 publication, Provincial Government Transfer Payments: Accountability and Audit, which had been prepared by a panel chaired by the Provincial Auditor of Ontario. A number of sessions were devoted to discussion of the practical application of comprehensive auditing in a variety of transfer payment fields.
- Other sessions included an update on the federal government's progress in conducting "special examinations" (i.e. value for money reviews) of federal Crown Corporations, under legislative amendments passed in 1984, and a session on "The Views of Provincial Legislators", presented by a panel consisting of the Chairs of the Public Accounts Committees of Ontario and of British Columbia.

The presentation by the Chair of the Ontario Public Accounts Committee consisted of a description of the procedures and operations of the Committee, including recent innovations such as interim reports and increased follow-up; a discussion of the Committee's findings with respect to reform of the Estimates process; an endorsement of the concept of management representations as a means to strengthen legislative accountability; and support for the concept of strengthened auditing of transfer payments.

## Committee Trip to Ottawa and Washington, March 1988

The Committee travelled to Ottawa, March 6 - 8, and to Washington, March 8 - 12, 1988, to meet with its counterpart legislative accountability bodies and the staff agencies supporting the work of those bodies. The Committee was accompanied by the Clerk and the Research Officer, and by the Provincial Auditor and a member of his staff.

### Meeting With The Auditor General of Canada

The Committee commenced its week with a meeting during the morning of March 7 with the Auditor General of Canada, Mr. Kenneth Dye, and his staff. They provided a description of the Office's structure, mandate, operations and current issues, and answered the Committee's questions. The Committee was then hosted to lunch by Mr. Dye.

The Committee noted a number of comparisons and contrasts between the operations of the Auditor General of Canada and the Provincial Auditor of Ontario:

- Comprehensive auditing mandate: Although the Auditor General was the first in Canada to obtain a value for money mandate, in 1977, this mandate was not extended to Crown Corporations until 1984, whereas the Provincial Auditor has had a value for money mandate for both ministries and Crowns since 1978. The Auditor General has little involvement in auditing of transfer payments, in contrast to the 1988 Annual Report of the Provincial Auditor.
- Outputs: The Auditor General's annual report is some 700 pages long, and, according to the Auditor General, some 20,000 pages of reports are provided to departments annually. The Provincial Auditor's annual report is usually some 200 pages long, reflecting about half the output provided to ministries and agencies. The Auditor General noted the priority he placed on obtaining the right to report periodically, a concept for which the Provincial Auditor has also expressed support.
- Role with respect to Parliament: The Auditor General indicated that his role was to provide audit information to the House of Commons and particularly the Public Accounts Committee to assist them in holding government accountable. He appears before other parliamentary committees to provide information on his audits, but does not carry out investigations on their behalf. Although not obligated to carry out the requests of the Public Accounts Committee on such matters as follow-up, he generally does so, seeing the follow-up as a logical extension of earlier work. Unlike his United States counterpart (discussed below), the Auditor General's role does not extend to the Senate, and unlike the Provincial Auditor of Ontario, the Auditor General does not have a secondary goal of assisting deputy ministers to hold their administration accountable.



- Follow-up: The Auditor General conducts follow-up on all audits within two years after they have been completed, while the Provincial Auditor's schedule of follow-up is more flexible. Support was expressed for the Public Accounts Committee's approach to follow-up, requiring departments to report on progress and calling them back in cases of unsatisfactory progress.
- Personnel: The Auditor General has 619 staff, augmented by some 300 contract staff who assist in carrying out value for money audits and auditing the Public Accounts. The staff are multi-disciplinary; about half are accountants, while the remainder have a variety of professional designations. In comparison, the Provincial Auditor has 115 staff, very few contract staff are used, and all the professional staff have an accounting designation. Both Offices use advisory committees, although the Auditor General has a separate temporary committee on each audit, while the Provincial Auditor has a permanent and general advisory committee.
- Cost of operations: Some discussion was devoted to the costs and results of the Auditor General's activities, compared to those of the Provincial Auditor. However, no conclusions could be drawn, owing to different bases of measurement and approaches.
- Opinion on the financial statements: The Auditor General has had concerns, or "Reservations", about the Financial Statements of Canada for a number of years, regarding such matters as the non-inclusion of certain contingent liabilities and of the operations, assets, and liabilities of commercial Crown Corporations. As such, he was of the view that the Financial Statements do not fairly present the costs or the results of government operations. In contrast, the Provincial Auditor has not had such concerns.

#### Public Accounts Committee of Canada

On the afternoon of March 7, 1988, the Committee attended a briefing of the federal Public Accounts Committee in order to observe the procedures used by the federal Committee and its staff in preparing for their hearings. During the evening of March 7, the Ontario Committee was hosted to dinner by Ms Aideen Nicholson, Chair of the federal Committee, who spoke on the valuable insights which the federal Committee had gained from its recent European trip. The dinner was attended by several members of the federal Committee, by the Auditor General of Canada, and by a representative of the Office of the Comptroller General of Canada. On the morning of March 8, the Committee attended a hearing of the federal Committee into the Auditor General's findings on Transport Canada.

The Ontario Committee noted some features of the federal Committee's procedures and approaches which differed from its own at the time:

- A more complex briefing process: Prior to a hearing, the Committee's research staff meet with the Auditor General's staff to identify key areas, then meet with the department to discuss the issues. Some ten days before the hearing, the department submits a written statement of its views, and the Auditor General also submits a statement. This clarifies the areas at issue. The Committee's research staff prepare a briefing book containing the statements, background information and analysis, and possible questions, and present it to the Committee at a briefing meeting held the day before the hearing.



- A different physical layout: All the federal participants are grouped around a table set up as a hollow square. (Some Ontario legislative committees have since adopted this layout.) As well, whereas the Provincial Auditor of Ontario sits at the head of the room to the left of the Chair, the Auditor General of Canada sits at the foot of the table beside the witnesses from the departments, a change apparently initiated several years ago by the Committee. This was perceived as giving the hearings a more judicial -- and more adversarial -- tone, with the Committee weighing testimony from each.
- A more active role by the Auditor: In addition to preparing a statement prior to the hearings, the Auditor General also spoke to his statement at the beginning of the hearing, emphasizing the objectives which he hoped the hearing would achieve. During the meeting he commented, usually critically, on the department's testimony when requested to do so by the Chair. At the end of the meeting, he made some concluding remarks.
- Separate reports for each investigation: The federal Committee has followed this practice for a number of years, and finds it effective in allowing reporting in a timely fashion, generating more media coverage and public awareness, and providing a mechanism to place requirements on departments and conduct follow-up. In light of these advantages, the federal Committee has sought for some time to have the Auditor General's legislation amended to allow him to also report on investigations as they are completed, rather than annually.
- Extensive follow-up: The federal Committee frequently requires departments to report back to the Committee within a specified period of time on their progress in addressing issues identified at the hearings. Depending on the progress, the Committee sometimes calls the department back for another hearing. Both the Committee and the Auditor General felt that this approach was very effective in motivating departments to actively redress identified problems.
- Identification of cost savings: In recent times, both the federal Committee and the Auditor General have placed more emphasis on measuring the cost savings arising from their work. It was noted that this approach may create pressures to focus on investigations leading to shorter-term expenditure savings, possibly at the expense of investigations into strengthening efficiency over the longer term. However, it has been very well received by the public.
- Insights from the federal Committee's European trip: Ms Nicholson felt that the Committee's 1987 trip to the Netherlands, Germany, and Sweden had been most useful, especially with regard to the Committee's consideration of the Estimates process. Innovative approaches in those countries included Sweden's centralized system of internal audit and its use of a three-year budget process which is permitted to fluctuate up or down by five per cent; the Netherlands' practice of having its policy legislative committees chaired on an ad hoc basis by a member of the Public Accounts Committee for the Estimates aspect of their work; and Germany's combination of the budget scrutiny and post-audit functions in one large committee.

As is evident from this report, the Ontario Committee has adapted some of these approaches to its work during the remainder of 1988. These include more extensive briefing activities, interim reports, and increased follow-up. However, the Committee has modified the approaches: for example, the briefing process does not involve meetings between Committee research staff and ministries, or statements by the ministries and Auditor. Interim reports are being used, but sometimes cover several investigations rather than just one. As well, they are

being drawn together in this report. Follow-up is used with some but not all ministries. The Committee feels that these innovations have increased its ability to hold the government accountable.

### Meeting with the Comptroller General of Canada

Following its observation of the federal Public Accounts Committee hearing on the morning of March 8, the Committee met with the Comptroller General of Canada, Mr. Andy Macdonald, and his staff to discuss the operations of his Office. Following an initial briefing, the Comptroller General hosted the Committee to lunch. After lunch, the briefings and discussion continued until mid-afternoon; the Committee then travelled to Washington for the second part of its trip.

The Office of the Comptroller General (OCG) was established as a result of the Auditor General's 1976 Report setting out the findings of his Financial Management and Control Study of the federal government, and the subsequent findings and recommendations of the Royal Commission on Financial Management and Accountability (the Lambert Commission). In many ways, the OCG, which has 150 staff, functions as a counterpart within government to the Auditor General. Its work focuses on improving the government's systems and capabilities in the areas of financial management and control, internal audit, and program evaluation. It does not carry out any audits or evaluations itself, but rather ensures that departments have the capability to do so.

The OCG is also responsible for upgrading the government's management information systems and the presentation of financial information to the public and to Parliament. This includes the form and content of the Public Accounts and the Estimates, responsibilities borne in Ontario by Treasury Board and Management Board respectively. As well, the OCG is responsible for following up on departmental responses to the findings and recommendations of the Auditor General and the Public Accounts Committee, and coordinating the government's response.

Discussion followed on various aspects of the OCG's role and issues facing the agency:

- Internal audit, in light of the Committee's current investigation of Ontario's system: The OCG is responsible for developing policies and guidelines for internal audit throughout the government, which are then promulgated by Treasury Board. The OCG then inspects the audit activities of the departments, reports to the President of the Treasury Board, and develops corrective measures where necessary. At the time of the meeting, the OCG was preparing the first Annual Audit Plan for presentation to Treasury Board, drawing together the plans of all the departments.



- Increased Ministerial Authority and Accountability (IMAA): The OCG devoted some time to discussing this initiative to reduce and streamline central controls on administration and to move from a before-the-fact control system to an after-the-fact accountability system within the government (discussed above in the section on the CCAF conferences). The OCG is largely responsible for ensuring that the development and upgrading of the necessary departmental planning, monitoring, and reporting systems takes place.
- Reform of Estimates information: During the 1980s, the form of the federal Estimates has been changed to a three-part format wherein the "Part III's" contain information on departmental performance and results by program area. The OCG has been responsible for the implementation of this initiative, which has recently been completed. It was felt that there was further scope to upgrade the information and make it more relevant to parliamentarians.
- Cash management: A major initiative of the Office during the past several years has been the improvement of cash management throughout government, in response to the Auditor General's findings of deficiencies in 1984. In 1985, the Public Accounts Committee recommended a key role for the OCG. A strategy was developed and implementation structures were put in place. The current forecast calls for savings of \$1.2 billion during the five-year initiative.
- Improvements to the presentation of the financial statements of Canada: The OCG has taken a number of measures to change the presentation of the financial statements of Canada in Volume I of the Public Accounts. Many of these changes address concerns of the Auditor General, although as noted above, the Auditor General still has a number of unresolved concerns:
  - better valuation of assets, particularly loans and investments;
  - consolidation of special accounts;
  - consistency with the form of the budget;
  - announcement of accounting changes in the budget;
  - recognition of payables; and
  - better notes to the financial statements.

The Committee found these discussions to be useful in its later meeting with the Provincial Auditor regarding his opinion on the financial statements of Ontario, and in its preparation of reports on reform of the estimates process (Special Report, June 1988) and on internal audit (Fifth Interim Report, September 1988).

#### Briefing Meetings in Washington

At the beginning of its visit to Washington, the Committee held several briefing meetings. A representative of the Centre for Legislative Exchange, who had assisted in arranging the Washington portion of the trip, briefed the Committee during the morning of March 9 on the various meetings planned for the Committee. During lunch and the early afternoon, a member of the Library of Congress Congressional Research Service discussed the structure of the U.S.



government with particular attention to the committee system. The Committee then met with staff of the Canadian Embassy at the embassy to discuss issues related to Canada-U.S. relations, particularly with respect to the free trade negotiations. The Committee concluded the day with a meeting with Mr. Robert Herzstein, a senior partner in the law firm Arnold & Porter, to discuss lobbying activities in the U.S. and the way in which they are regulated.

### Meeting With The General Accounting Office (GAO)

The Committee met with the General Accounting Office during the morning of March 10. Mr. Charles Bowsher, the Comptroller General of the United States, attended the meeting from 7:45 to 9:15 and hosted the Committee to breakfast. He spoke on the work and the history of the GAO and answered questions by the Committee. Following his departure, staff of the GAO provided further information and answered questions.

The GAO was established in 1921 as a result of the development of an executive budget. Early in the century, the U.S. budget process had involved each department and agency sending a separate budget to Congress. The move to a single aggregated budget was thought to increase the power of the President and to require an enhancement to the resources of Congress in order to maintain checks and balances; hence the GAO came into being. Prior to World War II, most of the GAO's work consisted of pre-auditing financial transactions. During the War, the massive increase in the volume of transactions led the GAO to move to a post-audit role (a shift which did not occur in Ontario until the early 1970s). During the 1950s, the GAO's emphasis shifted to assessing the effectiveness of programs.

The Committee noted the following comparisons and contrasts with the work of the Provincial Auditor and the Auditor General of Canada (some points of particular interest are highlighted in bold type):

- Extremely wide auditing mandate: Since the 1950s, the emphasis on assessing program effectiveness has continued to increase. **In 1987, over half of the GAO's recommendations were directed to improving program effectiveness.** In contrast, the Provincial Auditor and the Auditor General are mandated to examine only whether systems are in place within the department to assess program effectiveness.
- Scope of coverage: **The GAO covers virtually all fields of government activity, including all government corporations, all transfer payments, and matters related to the federal deficit.** The only area where the GAO does not have a complete mandate is the area of tax expenditures, owing to provisions for confidentiality of individual tax returns.
- Outputs: In 1987, the GAO produced 767 reports and worked on about 1,000 projects. About half of its reports contained recommendations. The GAO also testified before Congressional committees 161 times.

- Other responsibilities: The GAO has a number of responsibilities in addition to its comprehensive auditing role:
  - establishment of standards for internal financial control throughout the government;
  - operation of a "hot line" on a confidential, 24-hour-a-day basis to receive calls from the public or civil servants about potential instances of fraud or waste (initiated by a Senator, not the GAO);
  - investigation of possible civil or criminal misconduct encountered in GAO audits, through its Office of Special Investigations;
  - advice to civil servants on whether specific expenditures are authorized by existing legislation, **including the power to disallow payments**;
  - handling of debt claims on behalf of the U.S and against the U.S. which have not been resolved elsewhere; and
  - handling of "bid protests" regarding tenders on government contracts.
- Follow-up: The GAO's follow-up shows that about two-thirds of its recommendations are implemented.
- Time orientation: The GAO's work covers **proposed as well as current and past activities**. In contrast, the Provincial Auditor examines past expenditures only.
- **Inspectors General:** A priority of the GAO has been the establishment of Inspectors General (IGs) in each of the departments. **These individuals are responsible for conducting audits, investigations, and inspections, and are required to report to Congress monthly on their findings.** (An analagous approach in the Ontario government would call for heads of internal audit to report directly to the Ontario Legislature). Most of the departments now have IGs, despite significant resistance from some departments. No counterpart to these positions exists in Canada.
- Role and relationship with Congress: **The GAO must respond to requests by chairs of Congressional committees.** The GAO has interpreted this mandate to include chairs of sub-committees, and, in order to maintain the GAO's non-partisan nature, requests from ranking (i.e. the longest-serving) minority members of committees and sub-committees. The GAO also conducts reviews pursuant to standing obligations to committees. As well, it responds to requests from individual members of Congress as resources permit. In recent years, the share of the GAO's work requested by Congress has increased from 30% to over half. At the same time, the proportion of projects conducted for individual members of Congress has declined to no more than 10% of the GAO's work.
- Personnel: The Comptroller General is appointed by the President for a term of 15 years, after which he or she is retired on full salary. The GAO has 5,100 staff, distributed among the headquarters in Washington, 15 regional offices, and 3 overseas offices. The staff is highly multi-disciplinary; some 10 - 15% are accountants, while the remainder have various other professional backgrounds. **Degrees in public administration obtained mid-career are particularly favored by the GAO. Contract staff are seldom used.** The GAO is assisted in its work by advisory committees on each review, consisting of senior people from the public and private sectors, **who serve on a volunteer basis.**
- Cost of operations: The GAO was responsible for reviewing a budget of one trillion dollars in federal expenditures in 1986-87, and had a budget of \$308 million. Its work was estimated to have led to savings of \$18.2 billion in 1986-87, representing approximately a \$60 return on every dollar of GAO budget. **It was considered useful to stress cost savings**



identified, in light of the prevailing atmosphere of budget restraint. The GAO was the only part of Congress's entire operation which did not receive a cut in funding in the budget reduction operation which had taken place prior to the Committee's visit. However, the Office had grown very little in real terms during the preceding 10 years.

- **Timeliness of reports:** It was noted that the volume of work placed on the GAO and the need to ensure its accuracy and reliability meant that there were often time lags in delivering reviews to Congress. On average, a project took about a year to complete following a request, although urgent projects (such as the GAO's recent investigation of the stock market crash) could be completed more quickly.

### Meetings With Congressional Oversight Committees

During its visit to Washington, the Committee also met with members of the U.S. House of Representatives to discuss the exercise of the legislative oversight and accountability function in the U.S. government. On March 10, the Committee met with Rep. William Clinger, member of the House Government Operations Committee and ranking minority member of the Environment, Energy, and Natural Resources Sub-Committee. On March 11, the Committee met with Rep. James Oberstar, chair of the Oversight and Investigations Sub-Committee of the House Committee on Public Works and Transportation.

The Government Operations Committee is responsible for the overall economy and efficiency of the federal government's operations and activities. It has jurisdiction over all executive and independent agencies. It also reviews all reports of the GAO. As well, it is responsible for internal intergovernmental relations, i.e. federal-state and federal-municipal relations. The Committee is also responsible for all government reorganizations, an important power since the reorganization of departments and agencies affects the scope and scale of the jurisdictions of the various committees of Congress. Any legislation related to procurement, financial controls, capital budgeting, and the sale of government assets falls within the Committee's ambit. Rep. Clinger described this field of legislative authority as being rather small, compared to those of most other standing committees.

The Committee has 39 members and seven sub-committees, averaging 8-10 members. The committee as a whole has 75 staff, who are allocated between the majority and the minority party, although not proportionately, according to Rep. Clinger, the minority party being under-served. As well, staff are often seconded from the GAO. There are no permanent non-partisan staff.

The sub-committees hold investigative hearings, leading to committee reports. They seek to do their work in a non-partisan manner, although this is not always possible. At the hearings,



witnesses testify under oath. Subpoena hearings are very rare. According to Rep. Clinger, when an agency is uncooperative, he, as the ranking minority member of the sub-committee, often calls the agency head and seeks to resolve matters. The Committee cannot subpoena witnesses from the private sector. Follow-up is usually done on committee reports within 6 - 12 months.

During the 99th Congress (a two-year period), there were 201 days of sub-committee hearings, leading to 65 committee reports. As well, 14 items of legislation were reported to the House.

During the meeting with Rep. Oberstar, the Committee obtained some insights into the roles of standing committees and their oversight sub-committees. The standing House and Senate committees have several functions:

- to scrutinize and amend legislation in the areas of jurisdiction assigned to them;
- to authorize the activities and programs of departments in their areas of jurisdiction (it should be noted that this differs from the Estimates process in that it does not involve funding, a feature discussed below in the section on the U.S. budget process); and
- to exercise oversight of the way in which the executive is implementing the laws previously passed by Congress.

Most of the standing committees have a sub-committee devoted to oversight activities. In the case of Rep. Oberstar's sub-committee, the work was described as ranging from issues of financial control and economy to matters of effectiveness and wide-ranging policy issues. The work focuses on correcting identified problems and improving legislation already on the books. The sub-committee often initially takes a low-key approach to its work, holding hearings only as a weapon to expose bureaucratic wrongdoing or to place pressure on agencies. The sub-committee works closely with the GAO and often pursues recommendations for oversight arising from the GAO's studies and reports.

### Meetings On The U.S. Budget Process

In preparation for its examination of Ontario's Estimates process, the Committee devoted a number of meetings to exploration of the U.S. budget process. During the afternoon of March 10, the Committee met with the Acting Director of the Congressional Budget Office (CBO) and staff. During the morning of March 11, the Committee met with the Chair of the House Budget Committee, Rep. William Gray, and committee staff. Later that day, in the afternoon, the

Committee met with the Chair of the Foreign Operations Sub-Committee of the House Appropriations Committee, Rep. David Obey. During those meetings, the Committee discussed the budget structure, process, and functioning, as well as the specific budgetary circumstances facing the U.S.

The Committee found that the evolution of the legislative budgetary process in the U.S. can be viewed as a history of attempts by a deliberately fragmented and decentralized structure to organize itself to deal with the complex and inherently centralized activity of budgeting. These attempts began in the 1920s with the establishment of an executive budget and the development of standing House and Senate committees to approve funding (the appropriations committees); continued in 1974 with the establishment of top-down, "big picture" budget committees in both Houses and extensive staff support via the Congressional Budget Office; and saw its latest development in 1985 with the passing and implementation of automatic deficit reduction legislation.

The analogy of a bank account was used to describe the funding process to the Committee:

- the standing subject area committees must authorize all the programs and activities of their areas of jurisdiction, usually annually. They "open a bank account for the program".
- the appropriations committees, through their sub-committees, review and approve the President's requests for funding for authorized discretionary programs. They "put money in the bank accounts which the standing committees have opened".
- the President then implements the programs. He "writes cheques on the bank account".
- the standing subject area committees (i.e. the authorizations committees) then exercise oversight of the areas under their jurisdiction, to assess whether the funds are being expended for the purposes approved. They "review the cheques and check the balances". There is minimal integration of this process with the funding review and approval process by the appropriations committees.
- budget proposals on the revenue side are considered by yet other committees, Ways and Means in the House and Finance in the Senate.

The budget committees, established in 1974, consider the overall budget to review the validity of the President's assumptions and economic forecasts, to assess his taxing and spending proposals in overall terms, and to set the overall revenue and spending targets. This establishes the framework within which the authorizations, appropriations, and revenue committees operate, and allows Congress to see and control the global effects of its spending and taxing legislation. The budget committees are assisted in their work by a non-partisan staff agency,



the Congressional Budget Office. The CBO has 260 staff and works exclusively for committees, with the budget committees having the highest priority. Its major responsibilities include:

- analysis of the President's budget proposals as noted above;
- development of budget reduction options for Congress's consideration; and
- development of cost estimates for all legislation initiated by Congress.

The budget process is governed by an elaborate timetable whereby in theory, all the various actors complete their responsibilities in time to approve a budget before the new fiscal year. The process begins within the executive branch over a year before the start of a new fiscal year. Agencies and departments prepare their budgets and submit them to the President for review and approval. The President then submits his budget to Congress in early January for the upcoming fiscal year of October 1 - September 30. During this process and early in the new year, the standing committees are reviewing and authorizing the programs under their jurisdiction. This process must be completed before the appropriations committees can begin "putting money in the bank accounts".

When the President submits his budget to Congress in early January, the whole package goes to the House and Senate budget committees, while the component parts go to the appropriations committees and on to their 13 respective sub-committees. The two budget committees work separately to review and consider the "big picture" of the budget. Each budget committee then puts together a budget plan, which is merged into a concurrent budget resolution, which sets the targets for the appropriations committees and is supposed to be completed by early spring.

Each of the appropriations sub-committees in each house is supposed to produce an appropriations bill for its area within the targets set by the budget committees. This work is supposed to be completed by August, and the bills are to be sent to the President for signature in September, ready for the new fiscal year on October 1.

In practice, this timetable has not been met since the budget reforms of 1974. During 1986 and 1987, the process approached complete paralysis. Every aspect of the system has contributed to this failure in some part. During the Committee's meetings, however, there was cautious optimism that the functioning of the process was improving. It was felt that the stock market crash of October 1987 had imposed an external discipline on the system. In some of the



Committee's meetings, the view was expressed that the upcoming electoral changes would lead to further improvements. Although the complexity of the process was widely acknowledged to be a contributing factor, there seemed to be limited impetus for reform.

The Committee devoted some time to exploring the relationship between Congressional committees carrying out accountability functions similar to its own, and the committees involved in the funding process. Integration between the two functions was found to be very limited. Within the legislative arm, only the standing committees (which authorize the programs) make much use of their own oversight findings to guide their decisions on whether to continue programs. It might be noted that the system has powerful incentives to continue programs, since to eliminate or reduce a program would be to reduce the committee's area of jurisdiction. Other integrating factors are that:

- on the staff side, the Congressional Budget Office bases many of its deficit reduction options on studies by the General Accounting Office; and
- the findings of the Government Operations Committee on economy and efficiency must be "taken into account" by the other committees of Congress.

In general, the fragmentation of the system works against "closing the accountability loop". The bodies responsible for economy and efficiency have no direct power to implement their recommendations, and must rely on the authorizations and appropriations committees which approve and fund activities. These bodies in turn have powerful incentives to maintain and expand the activities under their jurisdiction. Value for money is only one factor, although an increasingly important one, in those decisions.

The Committee found these insights into the structure and functioning of the U.S. budget process to be most useful in its subsequent preparation of its Special Report on Reform of the Estimates Process.

#### **Tenth Annual Conference of the Canadian Council of Public Accounts Committees, July 1988**

During July 9 - 13, 1988, the Committee, accompanied by the Clerk and the Research Officer, travelled to Halifax to attend the Tenth Annual Conference of the Canadian Council of Public Accounts Committees. These conferences are held concurrently with the annual conferences of the legislative auditors, and include a joint session with the auditors. The Ninth Annual Conference is briefly described in the Summary of 1987 Activities at the beginning of this

report. As noted there, the decision was taken at the Ninth Conference to establish a sub-committee of the Council, consisting of the Chairs of the Public Accounts Committees of Newfoundland (chair of the sub-committee), Ontario, British Columbia, and Canada, to develop guidelines for the structure and functioning of public accounts committees in Canada. These draft guidelines formed the theme of the Tenth Conference.

The guidelines were developed during 1987 and early 1988 through the following work program. The Sub-Committee met in Ottawa in November 1987, following the Eighth Annual Conference of the Canadian Comprehensive Auditing Foundation. At that meeting, a framework for the guidelines which had been drafted by Newfoundland was discussed and approved. During December and January, Ontario drafted a section on accountability issues (e.g. the scope of value for money auditing, the expansion of scrutiny into new fields such as tax expenditures and transfer payments, the strengthening of the Estimates process, etc.), which subsequently became the second chapter of the study. British Columbia was responsible for drafting a section comparing characteristics of public accounts committees across Canada. Newfoundland drafted the remaining sections, on the proposed structures, resources, powers, and procedures of an effective committee. The drafts were exchanged and discussed during the period February - May 1988. Upon finalization, the federal government then provided translation assistance, and all delegates to the Tenth Annual Conference received a copy.

The Tenth Annual Conference began with a round table description of the activities of each committee during the foregoing year, as has become customary. The remainder of the conference was then devoted to review and discussion of the Guidelines. At the end of the conference, the Guidelines were adopted as a working document of the Council, subject to some agreed-upon changes. The Sub-Committee met again in November 1988 in Montreal, during the Ninth Conference of the Canadian Comprehensive Auditing Foundation, to finalize the Guidelines and to discuss their role at the Eleventh Annual Conference of the Council, scheduled for July 1989 in Edmonton. It was agreed that the Sub-Committee should work to draft model Standing Orders for Public Accounts Committees, drawing upon the principles agreed to in the Guidelines.

### **Educational Activities**

During 1988, the Chair of the Committee engaged in a wide range of educational and information dissemination activities regarding legislative accountability and the role and work of the Committee. These included the following:

- a presentation as one of three panelists on a session, "Government Financial Issues - The Audit and Public Accounts Perspective" at the Government Directors of Finance Workshop, held by the Financial Management Institute of Canada, Montreal, May 9. The Chair discussed the legislative perspective, while the other panelists, the Deputy Auditor General of Canada and the Assistant Auditor General of Quebec, addressed external audit issues;
- a report on the Committee's role, structure, procedures, and activities, to the Tenth Annual Conference of the Canadian Council of Public Accounts Committees, in Halifax, July 11;
- an address on the Committee's First Interim Report, 1988, to the session on "Resource Allocation in the Mental Health Care Field", Conference on Mental Health Issues, held by the Clarke Institute of Psychiatry, Toronto, October 13;
- the keynote presentation at the plenary session of Update '88, an annual conference for Ontario government financial managers held by the Financial Officers' Council of Ontario, Toronto, November 16;
- as noted above, a panelist at the session on "The Views of Provincial Legislators", Ninth Annual Conference of the Canadian Comprehensive Auditing Foundation, Montreal, November 29;
- an address to the Quarterly Luncheon of the Internal Auditors' Council of Ontario, Toronto, December 13, with particular emphasis on the Committee's Fifth Interim Report 1988 regarding the internal audit system in Ontario; and
- an article for the Canadian Parliamentary Review, Public Accounts Activities section, winter 1988-89 issue, on the Committee's role, work, and recent innovations.



## SUMMARY OF HEARINGS INTO THE PROVINCIAL AUDITOR'S 1987 ANNUAL REPORT

### Reform of the Estimates Process (Update, Special Report 1988, June 16, 1988)

On April 14, 1988, the Committee reviewed the Auditor's concerns regarding the Estimates process in the Ontario Legislature, and his recommendations for reform of the process and strengthening of the accountability cycle. The Auditor had discussed the accountability cycle in Section 2.1 of his report, and had found a number of weaknesses in the Estimates process, set out in Section 2.2:

- procedural problems, including delays in review, inconsistencies in the level of scrutiny relative to expenditures, deviations from the planned schedule, and the inability to change items in the Estimates;
- deficient information on which to base scrutiny;
- pressures on the time and resources of members.

Linked to these problems, the Auditor found a lack of attention and commitment by members to the process. Noting the critical importance of the Estimates process to accountability, the Auditor recommended the establishment of a separate standing committee on Estimates, which would carry out in-depth scrutiny of a selected number of Estimates each year. Closing of the accountability loop would be achieved through subsequent review of those ministries by the Auditor and the Public Accounts Committee.

The Committee discussed these findings and recommendations, taking into account past concerns expressed by committees of the Legislature, and reform initiatives elsewhere. In a Special Report on Reform of the Estimates Process, tabled on June 2, 1988, the Committee recommended that:

- a Standing Committee on the Estimates, chaired by a member of the Opposition, be established to conduct annual in-depth scrutiny of selected Ministry Estimates. The membership of the Estimates Committee was to include three members from the Public Accounts Committee, one from each party;
- six sets of Estimates per year be chosen for review, by all three parties, using a cycle of Official Opposition, Third Party, and Government Party, and that this be supplemented by a system of written questions to other ministries on matters of specific interest, and review of these other ministries where warranted;
- the Estimates Committee be given the power to recommend the reallocation of funding within each vote; and

- the Estimates Committee, when established, give priority to the development of a schedule for completion of scrutiny, the review of the form and content of Estimates information, and the identification of necessary committee resources.

No formal response had been received to the Committee's recommendations as of the writing of this report. The Provincial Auditor's 1988 Annual Report, tabled November 30, 1988, noted that, in addition to the Committee's Special Report as outlined above, the Standing Committee on the Legislative Assembly had presented a report on amendments to the Standing Orders to the House Leaders in the spring of 1988, containing recommendations on reform of the Estimates process consistent with those of the Public Accounts Committee. The Auditor's 1988 Annual Report stated, "We fully expect that the recommendations will receive appropriate consideration when the Legislature reconvenes in the fall [of 1988]. This expectation is based on the widespread recognition of the ineffectiveness of the Estimates process . . . Some experimentation with a new and more meaningful approach to Estimates is long overdue. The considered recommendations of two Committees of the Legislature, therefore, warrant close attention."



**Improvements Needed, Ministry Internal Audit Operations  
(Summary, Fifth Interim Report 1988, September 22, 1988)**

On February 24, 1988, the Committee questioned officials of the Management Board Secretariat regarding the Provincial Auditor's concerns about the quality of internal audit operations throughout the government, as set out in Section 3.4 of his 1987 Annual Report. The Provincial Auditor had found that substantial progress had been made since a previous review in 1980 with respect to the establishment of formal structures, mandates, and planning systems. However, the Auditor found that the actual performance of the work still showed scope for improvement. Output was falling short of plans, working paper files were deficient, a systems-based approach was seldom utilized, and weaknesses in reports were preventing them from achieving their potential impacts. The Auditor concluded that his Office could rely on the work performed by only 4 of the 15 ministries reviewed (up from one ministry in 1980). The Auditor also noted deficiencies in the management of audit staff. Basic auditing skills needed to be upgraded, staff motivation was low, systems to assign, monitor, and control staff time were deficient in a number of ministries, and evaluations of staff were inadequate.

During the hearing, substantial discussion was devoted to clarifying concerns which Management Board expressed on behalf of some directors of internal audit regarding the Provincial Auditor's review. Attention was also directed to measures being taken to improve the management and utilization of human resources in the area. The Committee emphasized the key role which a strong internal audit system plays in maximizing value for money by detecting and addressing problems early in time.

In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee commended the progress made since 1980 in establishing the formal structures and systems of internal audit, and recommended that various initiatives in this area continue. The Committee further recommended that Management Board:

- develop and implement a government-wide annual internal audit plan which would include a listing and prioritization of the government's audit universe, a report on the progress of the previous year's plan, a comparative analysis of ministry performance, and an assessment of the government-wide allocation of audit staff in light of the plan's priorities;
- report to the Committee by March 31, 1989, on the feasibility of a greater degree of centralization of the audit function, including views on the options of a supplementary central unit, a centralized personnel system, and complete centralization of the audit function; and
- develop an inventory of audit human resources and actively use it to assist ministries to overcome weaknesses and to provide career development opportunities for audit staff.

## Provincial Auditor's Opinion on the Financial Statements

On May 12, 1988, the Committee met with the Provincial Auditor and his staff to discuss Section 6.4 of the Auditor's 1987 Annual Report, regarding the meaning and significance of the wording used by the Provincial Auditor in expressing his opinion on the financial statements of the province. In his opening remarks, the Auditor noted that some recent private sector events (i.e. bank failures) had heightened public concern as to the messages and level of assurance conveyed by auditors' opinions on financial statements. He noted the emergence of an expectations gap between what the public thinks those opinions mean and what they actually do mean.

Anticipating that this concern might spread to public sector auditing, which uses essentially the same wording as the private sector in expressing opinions, the Auditor has included a section on this issue in his past two reports. The "expectations gap" was also the subject of discussion at the Ninth Annual Conference of the Canadian Council of Public Accounts Committees, during the joint session of legislative auditors and parliamentarians.

During the meeting, the Auditor and his staff reviewed and expanded upon the information presented in Section 6.4 of his 1987 Annual Report, and answered various questions put by the Committee. These included:

- the nature of errors in the financial statements (generally bookkeeping rather than fraudulent);
- the appropriate basis of accounting within government (the Auditor expressed strong support for a cash basis rather than an accrual basis);
- the extent to which transfer payments are audited by the Auditor's Office (less extensively than direct expenditures by government);
- discussion of the types and nature of tests used;
- trends in the quality and accuracy of financial statements (the growing use of computers has led to better, more accurate, cheaper financial statements);
- the scope for savings through improved cash management by the government, given that the federal government expects to save \$1.2 billion in five years through its recent initiative (it was felt that Ontario's cash management systems are relatively efficient, making it unlikely that savings on a similar scale could be achieved);



- the scope for a simplified statement of the province's financial position, which would be provided to all the taxpayers of the province in the same way that shareholders of a corporation currently receive financial reports (it was noted that the annual Treasurer's report could play this role, although complete distribution would be very costly);
- trends in the level of Management Board Orders (it was noted that they were rising as the overall level of government expenditure was rising, but that no illegalities had been found by the Auditor);
- the scope for greater legislative scrutiny of Management Board Orders (the Auditor felt that this was a matter for the Legislature rather than for his Office, just as the Estimates were a matter for the Legislature); and
- the appropriate approach to valuation of government-owned capital assets in order to determine the net worth of the province (it was noted that there is no accounting consensus as yet in this area; the view was expressed that the key items of information in assessing the financial strength of the province are the statement of revenue over expenditure and the future taxing ability of the province, rather than the net worth).

With regard to the level of assurance conveyed by the Provincial Auditor's opinion, it was noted that it does not mean that financial statements are error-free; rather, it means that the level of errors are not sufficient in aggregate to undermine the usefulness of the financial statements to users for decision-making purposes. In the case of Ontario, the Auditor is 99% certain that the financial statements of the province of Ontario do not contain errors in aggregate greater than one-fifth of one percent of the total -- the same level of assurance achieved by the federal Auditor General. This corresponds to a sum of \$60 million in the context of Ontario's overall budget. It was noted that the level of assurance could be increased to, e.g. one-tenth of one percent, or \$30 million, but that this would substantially increase the cost of the audit. The challenge is to strike a balance between the cost of audit and the acceptable level of assurance. The Committee concurred that the current level was an acceptable level of scrutiny.



**Additional Monitoring and Verification Required**  
**Ontario Student Assistance Program, Ministry of Colleges and Universities**  
**(Summary, Fifth Interim Report 1988, September 22, 1988)**

On April 21, 1988, the Committee questioned officials of the Ministry of Colleges and Universities concerning the Auditor's findings on the Ontario Student Assistance Program, as set out in Section 4.4 of his 1987 Annual Report. The Auditor had found that, generally, the Ministry's processing of grants and loans was in accordance with established procedures, and that verification of students' parental income was being performed adequately. However, the Auditor expressed concern about the adequacy of monitoring of the Financial Aid Offices at the educational institutions, observing that opportunities for fraud by both financial aid officers and students existed. As well, the Auditor found that there was scope for improved verification of student income, parental assets, and student assets.

In response to the Committee's questions, the Ministry outlined a number of measures which it was taking to address these concerns:

- new requirements by the Financial Aid Offices regarding proof of student identity and monitoring of academic progress;
- proper segregation of duties within the Financial Aid Offices to remove opportunities for fraud by staff;
- establishment of a permanent system, following a test project, to verify the income of all students with Revenue Canada;
- a review of the feasibility of an automated system to check the market value of parental homes; and
- discussions with the Ministry of Transportation regarding the feasibility of an automated system to check the value of students' cars.

The Committee also discussed the measures being taken by the Ministry to reduce the number of loan defaults and to collect those loans currently in default. In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee concluded that, generally, the concerns identified by the Auditor were being addressed by the Ministry.

**Improved Administration of Institutions Required**  
**Ministry of Correctional Services**  
**(Summary, Fifth Interim Report 1988, September 22, 1988)**

On February 24, 1988, the Committee questioned officials of the Ministry of Correctional Services regarding the Auditor's findings that there was scope for operational improvements in the administration of its 48 correctional facilities (Section 4.5, 1987 Annual Report). The Auditor had found that overall monitoring of operations needed to be strengthened to ensure maximum cost effectiveness. Major variations among institutions in staffing levels and operating costs were identified. Inadequacies were identified in the Ministry's systems both at the regional level and at the head office to identify, compare, prioritize, and address inconsistencies in the quality of facilities, programs, and operations among its institutions. As well, the Auditor found that the Ministry was making only a limited effort to measure the effectiveness of its institutional activities, particularly with respect to rehabilitation. Finally, the Auditor found weaknesses in the enforcement of procedures regarding drug occurrences.

In response to the Committee's questions, the Ministry described various measures which it was taking or proposed to take to improve its monitoring activities, and outlined its views on the feasibility of evaluating the effectiveness of its activities. The measures included:

- development of a \$26 million computer package, to be ready in 1989, which will allow implementation of a modern management information system;
- systematic operational reviews of each facility by an external team, on a three-year cycle;
- documentation of the Ministry's monitoring of overstaffing and of variations in per diem costs;
- specialized reviews of functions in the regional offices; and
- development of an integrated divisional/regional/institutional operational planning system.

In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee recommended that the Ministry:

- submit a report to the Committee by March 31, 1989, outlining its progress on the above initiatives, with the possibility of recall for further questioning if deemed necessary by the Committee;
- ensure that its new offender information system, part of its new computer system, have the capability to track recidivism, and that the Ministry monitor and analyze recidivism on an ongoing basis;
- develop an evaluative research component for each of its rehabilitative programs, to be in place by April 1, 1989; and
- increase its efforts to ensure that institutions comply with drug handling procedures.





## Acid Rain Monitoring

### Committee Recommendation # 1, Second Interim Report 1988

The Committee recommends that the Ministry provide a comprehensive response within 120 days of the tabling of this Report, which shall:

- describe the [acid emissions] monitoring that has been done at each facility beginning with the monitoring conducted in November 1987;
- identify the dates of these activities;
- set out the Ministry's findings on:
  - the extent to which the companies are meeting applicable standards on emissions, and
  - any discrepancies between the Ministry's findings and the data reported by companies; and
- describe the Ministry's actions in any cases of non-compliance which have occurred.

### Summary of Ministry Response

The Ministry's response to the Committee's recommendation described its existing air quality monitoring system and the measures taken to verify company data, in terms of the recommendation's requirements. (During the Committee's hearings, the Ministry had explained that at the time of the Auditor's review there had been two monitoring systems: a ministry system for monitoring air quality around facilities at ground level, and internal company systems for estimating stack emissions based on a technique of measuring sulphur levels in feedstocks and inputs (the "Mass Balancing System"). The issue which had been identified by the Auditor was that the Ministry had not been checking the company data to verify accuracy. The Ministry had indicated at the hearing that it had begun to verify company data since the release of the Auditor's 1987 Annual Report.)

The response noted that the Ministry's air quality monitoring is directed toward implementing two sets of regulations, one regarding general air quality province-wide, and the other set ("Countdown Acid Rain") providing for reductions in acid emissions by the four largest sources in the province. The Ministry's province-wide ground level air quality monitoring network primarily supports the enforcement of the first, general, regulation, although it also allows monitoring of the four acid emitters. The Ministry noted that specialized,

comprehensive monitoring and verification procedures will be needed to implement Countdown Acid Rain, and that these are currently being developed. The Ministry's independent verification efforts to date are described in the response.

With respect to the general air quality monitoring system, the response provided a detailed description of the Ministry's installations in the vicinity of the acid emitters' facilities. In response to the Committee's question on frequency of monitoring, the response stated that it is conducted continuously, and data at most of the sites are transmitted to the Ministry every five minutes. These are supplemented by company and Ontario Hydro monitoring and reports.

The response described the standards applying to the acid emitters, the companies' compliance records, and the Ministry's actions in cases of non-compliance, as summarized below. Control orders were applied to the three private sector emitters in the late 1970s and early 1980s, limiting ground level concentrations of sulphur dioxide to five parts per million for any 60-minute period (Ontario Hydro is not discussed in the Ministry's response). Exceedances are investigated by the Ministry to determine if the company has exercised due diligence; failure to do so represents a contravention of the control order. The response states that these control orders were intended to be temporary, pending installation of more modern technology to control emissions.

- Inco's control order was established in 1978. It was charged for one exceedance in 1978 and another in 1980, and successfully convicted for the former offense. During 1987, Inco exceeded its control order 60 times; during 1988 (presumably to the date of the Ministry response), 27 times.
- Falconbridge's control order was established in 1984. To date it has not been prosecuted. During 1987, it exceeded its control order 27 times; in 1988, 3 times.
- Algoma Steel's control order was established in 1979. It was charged for two exceedances in 1981 and one in 1985, and successfully prosecuted for all three. In 1988, it exceeded its control order three times.

According to the response, the Ministry has investigated each of the exceedances, and has determined that the companies have not contravened the terms of their control order since November 1987 (the time of the release of the Auditor's 1987 Annual Report).

With respect to the monitoring of the companies involved in Countdown Acid Rain (CAR), the response stated that the Ministry has been actively monitoring the companies' development of control technology by reviewing their progress reports. The Ministry is also developing an independent, cost-effective verification procedure to confirm the company figures on an



on-going basis and to assess compliance with CAR. To this end, the Ministry has commissioned consultant assessments of the companies' sampling procedures and recommendations for new sampling programs for both the operators and the Ministry. According to the response, these reports are now under review, and additional information is being gathered. Based on these efforts, options will be developed for Cabinet review. It is expected that implementation of the Ministry's verification process will be phased in over a one-year period, beginning in 1989.

As a first step in its development of a verification program, and as recommended by the Provincial Auditor, the Ministry is sampling feedstocks and process inputs in conjunction with the four companies to verify their results. The response provided a list of the dates on which this testing has been done. Between November 1987 and the end of September 1988:

- Inco was tested eight times;
- Falconbridge was tested six times;
- Algoma Steel was tested twice; and
- Ontario Hydro's facilities were tested eight times (Lakeview five times, Lambton twice, Nanticoke once, oil-fired Lennox not tested, low-sulphur western coal-fired Atikokan and Thunder Bay, not tested). All these Hydro facilities will, however, be included in the final verification program.

The testing has shown that the company reporting has been accurate.

#### Allocation Of Resources To Complaints And Inspections

##### Committee Recommendation # 2, Second Interim Report, 1988

The Committee recommends that the Ministry develop a formal system embodying criteria against which complaints can be assessed and prioritized, integrate its inspection system into this system, and review the allocation and deployment of its staff, such that:

- an established minimum proportion of Ministry resources should be devoted to inspection activities except in exceptional or emergency circumstances, and
- the Ministry's computerized system for tracking complaint handling should have the capability to analyze complaints and identify patterns which can be used to prioritize inspection activities and to improve the quality of information available to concerned members of the public.



The Committee called for the Ministry to report on progress in this area in its comprehensive response.

### Summary of Ministry Response

The Ministry did not feel that a formal ranking system for the establishment of priorities among public complaints was appropriate, due to the diversity of complaints received. The response stated that the Ministry would continue to rely on the judgement of its staff, placing the highest priority on situations posing a risk to human health, followed by those posing a risk to the environment.

With regard to the integration of complaint and inspection activities, the Ministry noted that they were two separate activities, the former reactive and the latter proactive. However, the response stated that past complaint histories from individual facilities would play an important role in the development of inspection plans. It was also noted that the Ministry was currently reviewing its deployment of staff resources, with a view to ensuring an appropriate level of Ministry-initiated inspection activities within each region.

The response also outlined progress on the computerized complaint tracking system. It was expected to be operational as of October 1988, and was to form part of a comprehensive Ministry-wide management information and control system on complaint handling and resolution. It was noted that the system would provide for extensive data analysis of complaints and the preparation of summary information for the public.

### **Municipal-Industrial Strategy For Abatement (MISA)**

#### Committee Recommendation # 3, Second Interim Report 1988

The Committee wishes to emphasize that environmental protection cannot be allowed to await implementation of MISA. The Committee recommends that the Ministry vigorously use all instruments currently available to it so as to achieve the earliest possible reduction in the pollution of Ontario's waters. The Committee also wishes to note its concern about the delays which have been experienced in implementing MISA, and recommends that the Ministry continue to give this initiative the highest priority.

### Summary of Ministry Response

In its response, the Ministry agreed that environmental protection could not be allowed to await implementation of MISA, and stated that it was still vigorously implementing its ongoing programs, including inspections and new control orders. It was noted that staff resources in this area had been doubled, and that prosecution and conviction activity was continuing at a record rate. It was further stated that MISA remains the top program priority of the Ministry.

### **Improved Administration**

#### Committee Recommendation # 4, Second Interim Report 1988

The Committee notes the Ministry's commitment to improve its administrative practices by adhering to tendering requirements and by ensuring that Ministry vehicles will be used more cost-effectively in future, and its view that the measures taken will achieve these goals. The Committee observes that these issues have arisen before, and requests the Auditor to review the Ministry's performance in this area as part of his next review of the Ministry, and to include any instances of non-compliance in his Report.

### Summary of Ministry Response

It was stated that a comprehensive system has been put in place to:

- track the use of government and personal vehicles for Ministry business;
- inform management of vehicle use on a regular basis; and
- ensure that Management Board directives and other accepted codes of good practice are adhered to by staff and management at all levels.

The Ministry felt its current practices would withstand detailed scrutiny.

### **Recommendation**

The Committee wishes to reiterate the high priority which it places on the Ministry's enforcement of pollution controls, and particularly on the implementation of MISA. The Committee notes its intention to follow up on the Ministry's progress during its hearing into Section 3.7 of the Provincial Auditor's 1988 Annual Report, regarding the Ministry of Environment's weak controls over water and sewage treatment plants, planned for the 1989 summer recess.

**Weak Procedures and Controls, Health Insurance Program**  
**Ministry of Health**  
**(Summary, First Interim Report 1988, May 26, 1988)**

On February 16, 1988, the Committee questioned officials of the Ministry of Health concerning the Provincial Auditor's findings of weaknesses in three computer systems which support the delivery of the Ontario Health Insurance Program (OHIP), as set out in Section 4.8 of his 1987 Annual Report. The Auditor had concluded that the computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and had not kept pace with advances in computer system design. The Auditor had also found that large payments were being made for out-of-country treatment of psychiatric and addiction patients, and had identified basic errors in the operation of the system for payment of out-of-province claims.

In its First Interim Report 1988, tabled May 26, 1988, the Committee recommended that the Ministry develop and implement a new computer system to overcome the weaknesses identified by the Auditor, and that in the interim it take all feasible measures to address the various deficiencies identified by the Auditor. The Committee also recommended that;

- the Ministry work to ensure that Ontario patients receive suitable treatment within Ontario;
- the Ministry monitor the reduction in out-of-province treatment during the next two years to determine the impact of the greater availability of in-province treatment, and that these findings be reviewed by the Provincial Auditor; and
- the out-of-province claims system be enhanced to prevent the errors noted by the Auditor.



**Problems in Mental Health Care, Ministry of Health  
(Update, First Interim Report 1988, May 26, 1988)**

On February 17 and 18, 1988, the Committee questioned officials of the Ministry of Health regarding the Auditor's findings of shortcomings in the system to provide and manage mental health care in the province, as set out in Section 4.9 of his 1987 Annual Report. The Auditor's investigation had identified some major concerns:

- deficiencies in the staffing, facilities, and utilization of the 10 provincial psychiatric hospitals;
- inadequate management information systems; and
- serious inadequacies in the availability and coordination of housing alternatives and community support available to ex-psychiatric patients.

The Committee heard from the Ministry that a wide range of initiatives were underway to address these concerns. In its First Interim Report 1988, tabled May 26, 1988, the Committee made a number of recommendations. It called for the Ministry to:

- upgrade its management information system to allow integration of information within the hospital system, and place a high priority on completing its development of a management information system for its community-based programs and services;
- review its licensing requirements for homes for special care to determine the cause for delays in remedying deficiencies, determine whether its licensing requirements were adequate, and develop options to reduce the level of infractions in the future, and submit this study for Committee review by early in 1989; and
- ensure adequate evaluation capabilities for its increased efforts in community mental health.

The Committee also recommended that the Standing Committee on Social Development consider undertaking a comprehensive study of the housing and other community and mental health needs of ex-psychiatric patients, the adequacy of current and planned services, and options to overcome deficiencies.

Finally, the Committee noted its intention to assess those initiatives through visits to a number of facilities in the fall of 1988, to recall the Ministry as necessary, and to report on progress in its final report for 1988. It subsequently proved necessary to schedule the facility visits for a time when the House was in recess, and hence the follow-up investigations were deferred to February of 1989.

**Better Management Practices Needed, Mines and Minerals Program  
Ministry of Northern Development and Mines  
(Update, Fifth Interim Report 1988, September 22, 1988)**

On May 19, 1988, the Committee questioned officials of the Ministry of Northern Development and Mines regarding the Auditor's findings of weak management practices at the Mines and Minerals Division, as set out in Section 4.10 of his 1987 Annual Report. The Division had been transferred from the Ministry of Natural Resources in 1986.

The Auditor had reviewed the Ontario Geological Survey and had found that although it placed great emphasis on "doing things right" in terms of the scientific quality of work, there was no evidence that it was "doing the right things" in terms of a documented and systematic long and short-term planning and project selection process. Furthermore, the definition of "doing things right" apparently did not include timely completion of projects: the Auditor found that ongoing project management was weak, leading to significant delays and backlogs in work.

With respect to the work of the Mining Recorders, the Auditor found that administrative practices required modernization. Fees had been unchanged for decades. Security over records was inadequate: only the paper originals were kept, safeguards against fire or damage were lacking, and total public access was permitted. Inconsistencies in goals and practices existed from region to region. A high rate of recording errors in the administration of claim records was identified.

In response to the Committee's questions, the Ministry outlined a number of measures which it was taking to address these concerns:

- development of criteria to guide the geological project selection process, in consultation with users and field staff (expected completion in October 1988);
- development of a geological project management, tracking, and costing system, through a consultant (expected completion in July 1988);
- ongoing upgrading of technological capabilities so as to improve the efficiency and effectiveness of its geological activities;
- improved management of the Mining Recorder function;
- amendment of the Mining Act to allow correction of administrative errors so as not to penalize Ministry clients for administrative errors in interpretation of the Act (completed June 29, 1988); and

- development of a Green Paper on modernization and amendment of the Mining Act, including the rationalization of fees and the simplification of administration, expected to be ready for review and public consultation by the Standing Committee on Resources Development in the fall of 1988. (The Green Paper on the Mining Act was subsequently tabled on December 12, 1988. It sets out an updated administrative structure for public consultation and discussion, including shifting the matter of fees from the Act itself to the regulatory arena. The deadline for public comment is March 31, 1989.)

In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee expressed its belief that these measures held the potential to address its concerns, and requested the Auditor to review progress during the remainder of fiscal year 1988-89 and report any concerns to the Committee. The Committee also decided to formally inform the Standing Committee on Resource Development of its findings, and to request the Auditor to assist that Committee if needed.



**Improved Budgeting, Compliance, and Measurement Needed  
FUTURES Program, Ministry of Skills Development  
(Summary, Fifth Interim Report 1988, September 22, 1988)**

On February 23, 1988, the Committee questioned officials of the Ministry of Skills Development regarding the Auditor's concerns about the funding, administrative control, and evaluation of the FUTURES program, as set out in Section 4.11 of his 1987 Annual Report. The Auditor had found that:

- the funding process was deficient in terms of cash management, as indicated by the fact that the Ministry had provided \$4.4 million more funding to FUTURES offices than requested;
- FUTURES offices were not complying with program guidelines, in that participant assessments were often incomplete and eligibility data was often not verified and sometimes not retained; and
- procedures for measuring the success of the program had the potential to result in misleading information, and offered scope for improvement.

The Ministry explained its additional and often unsought mid-year funding of the FUTURES offices had been based on its view that the offices had underestimated the number of clients they could serve. It was acknowledged that in hindsight this view had been overly optimistic. The Committee expressed the view that the Ministry should be more responsive to the judgements of its front-line offices and should endeavour to make its funding decisions in a more consultative way. The Ministry indicated that it had implemented a number of new expenditure management processes to improve the funding process.

With respect to the problem of non-compliance with Ministry guidelines, the Committee heard that revised program guidelines have been put in place and a monitoring process of regular field visits and random file reviews was being used. It was felt that improvements had been achieved.

The Committee questioned the Ministry at length on the Auditor's findings of potentially misleading changes to procedures for measures to evaluate the success of the program. The Ministry described the changes which had been made and stated its rationale for the changes.

In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee recommended that the Ministry:

- continue its efforts to match its funding levels and cash flow to the needs and capacities of its field offices, based on consultation with those offices;

- place high priority on ensuring that the program is delivered in compliance with the guidelines, so that program funds are targeted to those most in need of aid; and
- consider an approach to the evaluation of the success of the FUTURES program which would assess not only the outcomes of the participants in the program, overall and in terms of various sub-categories of clients, but would also take into account the overall target population of the program and the level of utilization of the program by that entire population and various sub-categories of clients.

**OPP Telecommunications Project and Office of the Chief Coroner  
Ministry of the Solicitor General  
(Update, Fifth Interim Report 1988, September 22, 1988)**

On February 23, 1988, the Committee questioned officials of the Ministry of the Solicitor General regarding some concerns expressed by the Auditor, as set out in Section 4.12 of his 1987 Annual Report. The Auditor had reviewed the OPP Telecommunications Project, previously reviewed in 1983 and 1984, found that it was continuing to experience delays and cost increases, and predicted that in all likelihood these problems would continue to be experienced. With respect to the Office of the Chief Coroner, the Auditor found that its duties were generally being carried out economically and efficiently. However, the Auditor expressed some concern about the efficiency and consistency with which the posts of coroners were staffed. The Auditor also found duplication of effort in the Ministry's development of a new computer system to analyze causes of death across the province, leading to delays and cost increases.

The Committee reviewed the history and nature of the OPP Telecommunications Project, and questioned the Ministry on a number of issues. Regarding reasons for the delay and increased costs, the Ministry explained that the planning had been complex and time-consuming, and that acquisition of some tower sites had been delayed, a possibility which had been forecast. The increased costs arose from the delays, but, according to the Ministry, had been budgeted for. The current status of the project was described, and the potential for further delay and cost increases was discussed. The Ministry felt strongly that the project would be completed within the new timelines and on budget, since it was now at the stage of awarding fixed completion date contracts. It was, however, established that the final budget of \$107 million was in 1985 dollars, and that the final costs after inflation in future dollars were unknown. The Committee also questioned whether the lengthy delays in the project would result in its early obsolescence. The Ministry felt that it would still be appropriate to the needs of the OPP, and outlined a number of features which the Ministry felt would ensure the system could adapt to any foreseeable user requirements for 15 to 20 years.

In its Fifth Interim Report 1988, tabled September 22, 1988, the Committee recommended that the Auditor review the annual progress reports on the OPP Telecommunications Project which the Ministry is required to submit to Management Board, and report any concerns to the Committee.

The Committee questioned the Ministry about the Auditor's endorsement of the use of full-time coroners rather than fee-for-service coroners in large metropolitan areas. The



Ministry indicated that a position on this matter would be finalized later in the year. The Committee also questioned the Ministry about the Auditor's finding that 3 of 13 coroners appointed in 1986 had not been chosen through the normal selection process, which involves recommendations by the Ministry followed by an Order-in-Council appointment. The Ministry indicated that this process was not mandatory. The selection and appointment process was then discussed at some length.

In its report, the Committee endorsed the Auditor's view that the use of full-time coroners in some parts of the province offered potential gains in efficiency and economy, and recommended that the Ministry report to the Committee by December 31, 1988, on its decision on the use of full-time coroners, and the feasibility of a pilot project in a large metropolitan area. The Committee also found that the current process for selection and appointment of coroners was not an appropriate approach to the staffing of specialized professional positions of substantial importance to the community, and called for the Ministry to review various aspects of its selection and appointment process for part-time coroners (specified below), and to report its findings to the Committee by December 31, 1988.

The Committee also noted, in its report, that the Ministry had proceeded with the development of a computer system on the OPP mainframe despite the existence of a Management Board minute explicitly stating that the OPP mainframe was to be used only for police purposes. The Committee did not feel that the Ministry's desire to minimize delay justified contravening Management Board direction, and was of the view that the Ministry should have awaited formal approval before proceeding with its project.

The Committee further decided to formally provide a copy of its report to the Standing Committee on the Administration of Justice in the belief that it might of relevance to future inquiries, and requested the Auditor to assist the Justice Committee if needed.

A report was received from the Ministry on January 20, 1989 (in contrast to the reports of other agencies which had been submitted punctually). The report indicated that in response to the Public Accounts Committee's recommendation, a Cross-Ministry Committee had been appointed to study the use of full-time coroners. A copy of the Committee's report was attached to the response. It rejected the use of full-time coroners on the grounds that the current system was more cost-effective and practical, and that the salary scales for full-time coroners were too low to attract applicants, particularly in Metro Toronto. The report concluded that 10 full-time coroners would be needed to provide the 24-hour-a-day,

seven-day-a-week level of service currently being provided by 24 part-time fee-for-service coroners, and that taking overhead and support staff costs into account, this approach would cost more than at present. An intermediate system combining full-time and part-time coroners was rejected on the grounds that it would create a two-tier system with "second-class" coroners. The report also noted that difficulty had been experienced in attracting coroner candidates, even for higher-classified, better-paid regional coroner positions. Perhaps in light of this conclusion, the report did not address the other aspect of the Committee's recommendation, the feasibility of a pilot project on full-time coroners in large metropolitan areas.

The response also addressed the Committee's recommendation that the selection and appointment process for coroners be reviewed. The recommendation had called for the establishment of a job description for coroners. The response included a copy of a job description, although it did not indicate the role which this job description played in the coroner personnel process.

With respect to the Committee's call for an "open, professional selection process", the response indicated that new procedures were being implemented by the Chief Coroner whereby coroner vacancies are advertised in local media and hospitals. Under the previous system, the Regional Coroner identified and approached potential candidates. The remainder of the process appears to be unchanged; as described in the Committee's Fifth Interim Report 1988, the Regional Coroner interviews the applicants and forwards a recommendation to the Chief Coroner, who then recommends an Order-in-Council appointment.

The Committee's recommendation had called for the study to assess the scope to recruit coroners from among professions other than the medical profession. In response, the Ministry noted that existing provisions in the Coroners Act restrict appointments to legally qualified medical practitioners, but indicated that the possible participation of other professions would be included in a review of the Coroners Act scheduled for later in 1989. This review of legislation was also to consider the length of appointment, thus addressing another aspect of the Committee's recommendation (that the Ministry's review include the establishment of a fixed term of appointment for coroners, rather than the current system of appointment for life).

The Committee's recommendation had also called for the Ministry review to address the professional development needs of coroners, the extent of programs presently in place, and the



scope for strengthened training. In response, the Ministry described its existing activities (in-house training and supervision of new coroners by Regional Coroners, an annual educational session by the Coroner's Association, and an annual training seminar by the Chief Coroner). It was noted that the Ministry planned to reestablish a basic training program for all new coroners later in 1989.

The final aspect of the Committee's recommendation had called for the review to address the establishment of a system to review the competency of coroners, including formal channels for the expression of public concern. The response indicated that Sections 6 and 7 of the Coroners Act currently provide such a system. The Coroners' Council, chaired by the Chief Judge of the District Court, reviews all complaints and makes recommendations to the Solicitor General.

### **Recommendation**

The Public Accounts Committee requests the Provincial Auditor to review the response submitted by the Ministry of the Solicitor General and to assess its findings that the use of full-time coroners is neither practical nor cost-effective, and that the use of a combination of full-time and part-time coroners does not warrant consideration.

The Committee further requests the Ministry to provide a report by December 31, 1989, indicating action taken in 1989 on the following matters:

- the role of the job description for coroners in the Ministry's personnel process;
- review of the Coroners Act to allow the participation of professions other than the medical profession, and to modify the length of appointment of coroners; and
- progress on the reestablishment of the basic training program for coroners, including a description of the program.



**Operating Deficiencies, Liquor Control Board of Ontario  
(Update, Third Interim Report 1988, June 29, 1988)**

## **Introduction**

On February 25, 1988, the Committee questioned officials of the Ministry of Consumer and Commercial Relations and the Liquor Control Board of Ontario (LCBO) on the Auditor's findings of various operating deficiencies at the LCBO, as set out in Section 5.2 of his 1987 Annual Report. The LCBO has been the subject of scrutiny by the Public Accounts Committee and the Auditor every year since 1983. The Auditor's 1987 Annual Report, Section 5.2, suggested that a number of the problems identified in the past had not been satisfactorily resolved at the time of his audit.

The Auditor had reviewed liquor inventory levels and estimated that the LCBO could reduce its inventory by \$78 million, or 40% -- a proportion comparable to that found in 1983. The Auditor had also found that the LCBO's controls over its listing and delisting policies were inadequate. As well, the Auditor had noted that the new, automated Durham warehouse "continues to be plagued with numerous operating problems". Finally, the Auditor had identified overstaffing, such that scope existed to reduce payroll and benefits by an estimated 18% -- \$27 million, out of a 1986 payroll of \$142 million.

In its hearing, the Committee was informed that the LCBO was in the midst of a major transition which was intended to modernize its operations and improve its efficiency. A major reorganization had occurred in November 1987, leading to a number of vacancies at the senior management level which were still being staffed at the time of the Committee's investigation. A number of the LCBO's policies and procedures were also being revised, including its listing and product policy, its distribution system, its performance measuring and monitoring system, its management information systems, and its staffing criteria. As well, new point-of-sale technology was being introduced to modernize the LCBO's operations.

The Committee heard that some of the specific deficiencies noted by the Auditor had been addressed: delisted stock had been disposed of, and improved efficiency had been achieved at the Durham warehouse. However, most of the initiatives were still in the planning and development stage at the time of the Committee's hearing, and were expected to be finalized in the six months following the hearing.

In its Third Interim Report 1988, tabled June 29, 1988, the Committee recommended that the LCBO submit an interim report within 120 days of the tabling of its report (i.e. by November 3, 1988), describing progress on the various initiatives, and that it provide a comprehensive report by March 31, 1989, on further progress and achievements. The Committee noted its intention to review the reports, and to recall the LCBO for questioning if the Committee deemed it necessary.

On October 25, 1989, an interim report was received from the LCBO as requested, addressing the nine items. The responses are summarized in this report. In his covering letter, the Chairman of the LCBO stated, "I am confident that the LCBO, under its revised organization structure and new senior management direction and initiatives, will continue to improve and achieve satisfactory progress in all areas by the March 31, 1989 reporting deadline."

### **Improvements In LCBO Inventory Levels**

One of the major concerns identified by the Auditor was the poor management of liquor inventories, both in the stores and in the warehouses, a problem which had also been noted in the Auditor's 1983 Annual Report. The Auditor estimated that the LCBO could reduce its average inventory levels by \$78 million, or 40%, with the stores and warehouses each accounting for about half the improvement. During the hearing, the LCBO had concurred that substantial inventory reductions were possible, although they felt the excess inventory in the stores was between \$11 and \$18 million, depending on the definition of "excess", rather than the \$40 million identified by the Auditor. Accordingly, the Committee's recommendation called for progress reports on inventory reduction in both the stores and the warehouses.

The LCBO Interim Report indicated that improved inventory levels are being achieved. At the end of the period being reported on, overall inventory was down \$38.4 million or 19.2% from the same period the previous year (compared to the \$78 million which the Auditor had felt was achievable). The improvement was not evenly distributed, being concentrated in the warehouse sector and rising significantly in the final quarter being reported on. Nonetheless, the trend appeared positive, in that recent warehouse inventory was falling month-over-month where in previous years it rose during those periods. As well, this improvement had been achieved during a period of increasing sales.

Both the LCBO Interim Report and the covering letter from the Chairman of the LCBO emphasized that the inventory reductions which had been achieved were beginning to have an



impact on operations at the retail level in terms of increased stock-outs. Concern was expressed that a threshold was being reached where sales might be adversely affected due to lack of product availability and empty store shelves.

### Store Inventory Levels

The Committee's recommendation called for the LCBO to report progress in improvements in store inventory levels, as identified by the LCBO's new performance monitoring system and by the central measurement system which the LCBO had indicated in its response to the Auditor was being refined to improve its usefulness. The LCBO's response did not specifically mention the central measurement system. However, it outlined the inventory turnover targets which had been developed as part of its Performance Monitoring System, and reported on the achievement of those targets. All stores but the A+ stores (the largest) achieved an improvement in turnover in 1987-88 over the previous year, ranging from 13.7% to 18.3%. The percentage of turnover target achieved in 1987-88 ranged from 84.4% for the A+ stores to 98% for the B stores. The increased turnover translated into a decline in inventory investment.

The LCBO Interim Report also provided a number of indicators on progress in reducing inventory levels in the stores, in terms of both average daily inventory and period end inventory (the latter based on 13 four-week periods per fiscal year). The analysis compared the 13 periods ending in period 6 of the current fiscal year (i.e. in September 1988) with the previous 13 periods. For the entire year, average daily sales increased 5.1%, while inventory in terms of days supply decreased by 12.1% and average daily dollar inventory at retail cost decreased 7.7% for the year in question. However, this improvement peaked early in 1989; for example, the trend in average daily inventory at retail cost during the final four periods covered was down 3 - 5% from the previous year.

The LCBO Interim Report also set out a number of period end indicators, noting that these provided a snapshot in time rather than the more complete picture provided by the average daily figures. These statistics generally showed improvements similar to although more modest than those shown in the daily statistics outlined above.

### Warehouse Inventory Levels

The Committee's recommendation called for the LCBO to report on findings in trends in warehouse inventory levels, including any improvements which had been achieved during



1988, and data on actual turnover of stock compared to the LCBO's stated 1988 target of three times a year for imported stock and twelve times a year for domestic stock.

According to the LCBO Interim Report, inventories decreased in terms of both cost and volume, while shipments to stores increased. Increasingly large reductions were achieved for the final three four-week reporting periods (\$17 million, \$25 million, and \$37 million in the periods approximating July, August, and September 1988 respectively). As well, turnover targets were exceeded substantially. During the most recent year ending period 6 (i.e. September 1988), warehouse inventories at cost were down an average of \$12 million or 12.1% from the previous year. A relatively greater reduction was achieved in domestic inventory (16.4%) than in imported inventory (9.1%).

Total warehouse inventory at the end of period 6 was down \$36.7 million or 30.3% from a year earlier (domestic down 37.9%, imported down 25.8%). This figure accounted for about 95% of the LCBO's total inventory reduction at that point in time, while the stores accounted for the other 5%. Graphs attached to the LCBO Interim Report suggested that this reduction was part of a trend, in that inventory was decreasing gently period-over-period in the current year, while it had increased substantially period-over-period a year earlier.

### **Updating Of Manual on Ordering Procedures**

In response to the Auditor's finding that existing ordering and forecasting procedures for store stock were not being used, the LCBO had indicated that it was in the process of revising and updating its manuals setting out ordering procedures for the stores. The Committee's recommendation called for the LCBO to report progress on this initiative.

The LCBO reported that in 1987, a high priority had been placed on ensuring that staff were familiar with, and were using, existing forecasting and ordering procedures. During that time, a study had been conducted to assess whether store inventories were higher than required, and if so, to develop remedies. This study led to the revision of store ordering target tables in the late spring of 1988, to reduce the level of availability required for the slowest selling brands from the previous level of 100% availability, and to better reflect ordering lead times. The changes to the tables were being monitored to assess their impacts.

As well, in the early spring of 1988, the new ordering procedures were set out in the form of a detailed procedures manual, A Guide To Managing Store Inventories, a copy of which was

provided as an attachment to the LCBO Interim Report. This manual notes that the increased management emphasis on the importance of inventory management had already led to significant improvements, even before introduction of the new procedures. A comprehensive training program based on the manual was developed, and was implemented for all stores in the province from July to October 1988.

### **Implementation Of Point Of Sale Technology**

During the hearings, the LCBO had indicated that its move from manual cash registers to computerized point of sale technology would make a major difference to its ability to monitor its inventory. The Committee's recommendation called for the LCBO to report progress on the implementation of point of sale technology.

The LCBO reported that two major milestones had been achieved during 1988. Contract negotiations had been completed with IBM, the successful bidder, and the contract had been signed on February 1, 1988. The LCBO had accepted the detailed design specifications on June 13, 1988. During the remainder of 1988, software programs were to be developed for a pilot program scheduled for the spring of 1989. The software was to be delivered in December 1988. Testing was to be completed by the end of March 1989, the first pilot in one store was to be completed by the end of May 1989, and the pilot in the tenth store, which would then initiate mass acceptance, was scheduled for the end of August 1989.

### **Development Of New Customer Service Standards**

During the hearings, the Committee learned that one of the factors contributing to the LCBO's excessive inventories was the LCBO's unwritten policy of "no stock-outs", i.e. 100% availability of all listed brands, regardless of their popularity. The LCBO had informed the Committee that the comprehensive study of the LCBO's operations currently being carried out by a consultant included consideration of revised customer service standards, i.e. lower levels of the slowest selling brands. Accordingly, the Committee's recommendation included a call for a progress report on development of new customer service standards.

As noted above, the new ordering procedures for stores already embody differing stock levels according to the popularity of the brands (ranging from 85% for the slowest selling to nearly 100% for the most popular). The new ordering procedures manual also explicitly notes that the old policy that stockouts were unacceptable is no longer in effect.



However, according to the LCBO response, a preliminary report on the service level policy completed in March 1988 found that it was difficult to implement such a policy in the absence of an automated mechanism to monitor and measure service levels on a brand by brand basis in each store. This obstacle will be overcome once the computerized point of sale technology discussed above is in place. In the interim, the LCBO felt that its revised ordering procedures would achieve some improvement in more closely fitting in-stock levels to demand.

### **Revision Of Listing And Product Policy**

The Auditor had had a number of concerns about the LCBO's listing and delisting procedures, through which the LCBO determined what new products would be accepted and what existing products would be terminated. These problems stemmed from a variety of factors, some of which were addressed by the LCBO prior to the Committee's hearings. As well, since the hearings, the LCBO has responded to the Auditor's concern about the lack of cost recovery in the listings process in that it has begun to charge a fee to cover the costs of assessing new product submissions, incurring some criticism from consumers and the industry in so doing.

During the hearings, the LCBO had indicated that its Listing and Product Policy was under revision, and that it was difficult to fully address the area in the absence of a final policy regarding such matters as listing of domestic wine products. Accordingly, the Committee's recommendation called for the LCBO to report progress on the finalization of the Listing and Product Policy.

According to the LCBO Interim Report, a draft Listing and Product Policy, synchronized with the new Wine Content Act passed in June 1988, was presented for ministerial consideration in October 1988. It was scheduled for implementation on January 1, 1989. However, implementation had not taken place as of the writing of this report in January 1989, due to continuing consideration of related policy issues.

### **Improved Efficiency At Durham Warehouse**

The Auditor had had a number of concerns about the operations of the new automated Durham warehouse, which had experienced a variety of delays and problems in coming on stream (discussed in the Auditor's 1985 Annual Report). The warehouse had 161 staff, 42 more than predicted, and was serving only two-thirds the number of stores intended. The LCBO had indicated to the Committee that start-up efficiency problems were being overcome and that



further improvement could be expected, upon which additional stores would be served. Accordingly, the Committee called for the LCBO to report on progress in operations at the Durham warehouse, including improvements in efficiency levels, staff levels, and any increase in the number of stores being served.

The LCBO Interim Report noted the following developments:

- Efficiency levels ranged from 95 - 97% during the year (October 1987 - September 1988). This represents an improving trend from the Chairman's statement in February 1988 that efficiency levels in the six months previous had ranged from 92 - 95%.
- Permanent staff levels were unchanged from 1987 due to the use of additional temporary staff, although it was felt that some of these might be made permanent later in 1988-89. The warehouse had budgeted two extra staff for 1988 but had deferred hiring pending further study.
- The number of stores being serviced had increased by 16 or 6.6% to 257 (compared to an intended level of 360). Further changes were expected to be implemented early in 1989 after the Christmas rush.

### **Development Of Staffing Criteria**

The Auditor had also expressed concern about overstaffing, estimating that the potential existed to reduce the payroll by \$27 million or 19% of the total, stemming partly from inconsistencies among stores of the same size, and partly from duplication of managerial positions. The Auditor had also reviewed the LCBO's staffing process and had found that there were no formal criteria for establishing appropriate staffing levels. During the hearings, the LCBO had indicated to the Committee that it was conducting a review of its staffing levels and that it planned to submit a staffing report to its Board in September 1988, setting out staffing modules and a time frame for determining the staff of every store. In its report, the Committee called for the LCBO to report on progress in the development of staffing criteria, including any findings on potential efficiencies at either the operational staff or management levels.

The LCBO Interim Report indicated some delay in this area, noting that the "operational store staffing model which will be the basis for developing store staffing criteria will be presented to the Board of Directors for review in January 1989" (rather than September 1988 as earlier indicated). It was also noted that a decision had been taken to redefine the Assistant Store Manager position to eliminate duplication of functions and achieve consistency.

## Recruitment Of New Senior Management

During the Committee's hearings, the LCBO had indicated that it was currently in the midst of a reorganization, involving, among other things, the recruitment of a new senior management team. Consequently, the Committee's recommendation included a call for a report on progress in recruitment.

The LCBO Interim Report indicated that this initiative was nearly completed. At the time of the hearing, four of the seven senior management positions had been vacant. Three of these (the Vice-Presidents of Operations, Finance and Administration, and Human Resources) have been staffed with executives previously employed by large private sector retailers. Recruitment of the fourth and final vacancy, Vice-President of Marketing, had been deferred pending further review of the role of this area within the LCBO's restructured operations. The report also noted the staffing of a number of less senior yet strategic positions, including Managers in the areas of Policy and Issues Management, and Staff Relations, a Director of Loss Prevention and Security, and Coordinators in the areas of Employment Equity and French Language Services.

## Recommendation

The Public Accounts Committee notes, with respect to the LCBO's concerns regarding reduction of inventory, that problems in store stocking seem to have been encountered rather quickly, given that store inventory reductions were in the order of 3 - 5% during the final four periods discussed in the LCBO Interim Report. If indeed product availability problems are being experienced at these still relatively high store inventory levels, the Committee feels that this may suggest a need for yet greater efficiency in the forecasting, ordering and/or distribution systems. The Committee feels that there is scope for further improvement and believes that the various initiatives being undertaken by the LCBO and discussed in this report should contribute to further reduction of inventory levels beyond those achieved to date.

The Committee notes that the LCBO has appointed an Employment Equity Coordinator. The Committee resolved to write to the LCBO, requesting that the LCBO include in its Final Report, due March 31, 1989, information on its female, disabled, and visible minority groups, with respect to their number and proportion of: total staff, each classification, conversions from part-time to full-time, and promotions.

The Committee requests the Provincial Auditor to review the LCBO Final Report to the Committee, due March 31, 1989, to:

- assess whether the improving trend in inventory levels, especially in the warehouses, indicated in the final three periods reported in the LCBO Interim Report has been sustained, or whether inventory levels have deteriorated from their level at the end of period 6, 1988;
- assess progress on the implementation of the computerized point of sale technology.
- identify the status of the proposed new Listing and Product Policy;
- identify the number of stores being served by the Durham warehouse; and
- review progress in the development of staffing criteria.

The Committee further requests the Provincial Auditor to obtain from the LCBO a definition of "efficiency levels" as applied to the operations of the Durham warehouse, and to assess its appropriateness.

The Committee notes its intention to review the findings of the Provincial Auditor regarding the LCBO Final Report and to recall the LCBO for questioning if deemed necessary.



**Operating Concerns, Ontario Housing Corporation  
(Update, Fourth Interim Report 1988, July 6, 1988)**

## **Introduction**

On February 25, 1988, the Committee reviewed the Auditor's findings of questionable operating practices at the Ontario Housing Corporation (OHC) as set out in Section 5.4 of his 1987 Annual Report. The Auditor had identified several concerns in the course of his annual audit of the OHC's operations:

- several of the Metropolitan Toronto Housing Authority's (MTHA) privately managed projects had experienced significant unauthorized cost overruns, and had incurred questionable expenditures which were subsequently investigated by the OHC, the Solicitor General, and the Ontario Provincial Police;
- maintenance staff of the MTHA had a level of workers' compensation claims in 1986 which was five times as high as the average for janitorial workers and in fact exceeded the level among the most hazardous occupations; and
- one of the three housing authorities visited had awarded most of its 1986 contracts without public tender.

The Fourth Interim Report 1988 of the Public Accounts Committee, tabled July 6, 1988, made five recommendations regarding the Ontario Housing Corporation. The Ministry of Housing was required to report back to the Committee on its measures in response to three of the recommendations within 120 days of the tabling of the report (i.e. by November 3, 1988). A response was received from the Ministry on November 2, 1988, containing the requested reports and also describing the Ministry's response to the Committee's other two recommendations. These are summarized in this paper.

## **Follow-up By Provincial Auditor**

### Committee Recommendation # 1, Fourth Interim Report 1988

The Committee notes the measures taken by Ontario Housing Corporation in response to the concerns identified by the Auditor and reviewed by the Committee:

- strengthening of administrative controls, prevention of cost overruns, and improved project management through the implementation of a new tendering system at the Metropolitan Toronto Housing Authority;
- reduction of the extremely high level of workers' compensation claims in the Metropolitan Toronto Housing Authority through:

- agreement with the union to develop a modified work plan;
- reorganization of its employee health and safety function; and
- better liaison with the Workers' Compensation Board;
- more use of public tenders by the housing authorities through increased management emphasis on the importance of adhering to procurement procedures; and
- a review of OHC's tendering controls which the Ministry expected would be completed by May 1988.

The Committee is aware that the Provincial Auditor will be reviewing these measures during his follow-up work on this audit and his ongoing reviews of Ontario Housing Corporation. The Committee requests the Auditor to report to the Committee any concerns that he might identify in the course of this work.

#### Summary of Ministry Response

The Ministry noted that this recommendation was directed to the Provincial Auditor, and emphasized that the information provided to the Committee in the response was intended to be an informal status report for the assistance of the Committee, rather than a formal response to a Committee request. This portion of the Ministry response addressed three of the four points in the recommendation; information on workers' compensation claims was provided separately and formally in response to the Committee's fourth recommendation.

A description was provided of the new tendering process for privately managed housing projects, which essentially fleshed out the information provided to the Committee at its hearing in February 1988 and included in the Committee's Fourth Interim Report. It was noted that 15 of the 16 privately managed projects were under the new system at the time of the response, and the sixteenth was to come under the new system at the beginning of 1989. Regular maintenance inspections were being carried out by the Metropolitan Toronto Housing Authority's staff, and a new contract position had been created within the MTHA to provide financial control over the contracts.

It was noted that the Ministry's Operations Review and Audit Branch had completed its review of the tendering process throughout OHC, through visits to 12 local housing authorities including the MTHA. According to the response, the review had found that controls were adequate to ensure reasonable reliability in tender records, that OHC policies were being complied with in all material respects, and that the tendering process was being used where appropriate.

## Management Of Housing Projects

### Committee Recommendation # 2, Fourth Interim Report 1988

The Committee further notes that the Ministry is developing a management information system which is to be in place in 1989. The Committee recommends that this system have the capability to identify costs and budgets for individual projects. The Committee further recommends that the Ministry of Housing work with the Ministry of Government Services in an effort to ensure that information systems of government-owned buildings are compatible.

#### Summary of Ministry Response

The Ministry stated that its new management information system (HOMES) has the capability to provide actual costs and budget information for individual housing projects. According to the response, a meeting with the Ministry of Government Services was planned to gather information on their system requirements.

## Cost Information

### Committee Recommendation # 3, Fourth Interim Report 1988

The Committee notes the Ministry's statement that it presently conducts cost comparisons among the various housing authorities. The Committee requests that the Ministry provide it with an explanation of the system upon which its comparisons are based, together with copies of its most recent comparisons, including any comparisons among any regions or among projects within authorities, within 120 days of the tabling of this report.

#### Summary of Ministry Response

As requested, the Ministry provided an explanation of its system for comparison among housing authorities, together with 1987 data, the first year for which complete information was available. During 1988, local housing authority staff were trained in the use of the system. The 1988 data is expected to be available in March 1989. The system has sixteen indicators of management performance, supporting achievement of four goals: efficiency, property conservation, good tenant relations, and effective staff management. Performance is measured on either a percent or a dollar basis, the latter based on a standard industry measure ("Rentable Room per Annum").



The response stated that "some information can be collected at a project level, but at a considerable cost and analytical difficulty." However, it was noted that individual authorities augmented the province-wide surveys with their own assessments.

The information is provided for each local housing authority, except for Metro Toronto, where the information is by district, and Ottawa, where the information is broken down into eastern and western Ottawa. The housing authorities are grouped into six similar leagues for comparison to each other and to the League Median. The information is presented in six volumes, one for each league.

The Committee notes that although this system does not appear to have the capability to do cost comparisons at the project level, the Ministry's new management information system has this capability, according to the previous recommendation and response.

### **Workers' Compensation Claims**

#### Committee Recommendation # 4, Fourth Interim Report 1988

The Committee notes that the Ministry has taken measures to reduce the high levels of workers' compensation claims. The Committee recommends that the Ministry provide a report, within 120 days of the tabling of this report, setting out:

- progress on the development of a modified work plan, including measures for the rehabilitation of injured workers as well as the system by which workers are assigned lighter duties until recovered from their injuries;
- the most recent statistics, covering a period of at least one year previous, for workers' compensation claims and sick leave in each of the Metropolitan Toronto Housing Authority's six regions; and
- the status and activities of the health and safety committees, including information on the basis on which these are organized, which projects have health and safety committees and which do not, and any grievances which have been put forward in 1987 and 1988 by these committees.

#### Summary of Ministry Response

The response noted that a new Employee Health and Safety Department was established in the MTHA on August 8, 1988, to implement the Modified Work Program, coordinate workers' compensation claims, and operate safety education programs.

The Ministry provided a detailed description of progress on the development of a modified work program. Since the signing of the Letter of Understanding by the MTHA and the Canadian Union of Public Employees on February 23, 1988, a Modified Work Committee has been established with representation from both parties, to monitor and refine the program. The response outlined the program's process for injured workers to return to work, and outlined goals and achievements to date. The goal is to return 10 workers to the job through the program by December 31, 1988. As of October 31, 1988, four employees had been returned to full duties.

The Ministry also indicated that a new system of managing claims was being implemented, and described the process involved. It was noted that the new Employee Health and Safety Department would have full control of all Workers' Compensation Board (WCB) procedures by November 30, 1988, and that it would investigate claims and appeal them if there was any reason to doubt their validity. A reporting system is being established which will provide information on all accidents by district area, and summarize data for each district by month and year to date. Eventually, the system will also provide information on individual workers.

The Department will also play an educational role, including preparation of a Health and Safety Manual, education of staff in safe practices, and job safety analysis.

As requested, the Ministry provided the most recent information on workers' compensation claims and sick leave, by MTHA district for July 1, 1987 to June 30, 1988. Since only the annual total is given for each MTHA district, it was not possible to directly compare this information to the data to that reviewed by the Committee in February, which covered a six-month period, July - December 1986. However, it appeared that there has been some reduction, with only one of the six districts (the lowest in 1986) experiencing an increase. As well, the range of variation in days lost among districts has been reduced somewhat. Generally, five of the six districts appear to have achieved a 15 - 20% reduction in time lost, with the overall reduction for the MTHA in the same range. The Ministry noted that the Modified Work Program was hoped to lead to further progress in reducing claims.

#### Progress On Justice Committee Recommendations, 1980

##### Committee Recommendation # 5, Fourth Interim Report 1988

The Committee notes the Ministry's statement that 88 of the 119 recommendations of the 1980 Report of the Standing Committee on the Administration of Justice have been implemented.

The Committee recommends that the Ministry provide, within 120 days of the tabling of this report, a report identifying the status of each of the 119 recommendations.

### Summary of Ministry Response

As part of its response, the Ministry provided a status report on each of the 119 recommendations as requested.

### **Conclusion**

The Committee notes its intention to write to the Ministry of Housing and to request the following information:

- the outcome of the Ministry's discussions with the Ministry of Government Services regarding the compatibility of their management information systems on government-owned real estate; and
- statistics on workers' compensation claims and sick leave in each of the Metropolitan Toronto Housing Authority's six regions for the period July 1 - December 31, 1988.

The Committee also notes its intention to write to the Canadian Union of Public Employees local responsible for maintenance of MTHA projects, and to request their views on the operations of the Modified Work Program, the health and safety committees at the various projects, and the MTHA's reorganized approach to employee health and safety.

The Committee believes it would be of value if its successor Public Accounts Committee were to conduct a review in 1990 of the progress made by the Ontario Housing Corporation on its various initiatives.



**Potential for Savings in Administrative Costs**  
**St. Lawrence Parks Commission**  
**(Summary, Sixth Interim Report 1988, January 17, 1988)**

On November 17, 1988, the Committee investigated the concerns of the Provincial Auditor identified in the course of his annual audit of the St. Lawrence Parks Commission (SLPC), as set out in Section 5.5 of his 1987 Annual Report. During the 1986-87 review, the Auditor had found substantial duplication in administration, such that amalgamation of activities would allow expenditures on administration salaries to be reduced by over one-third, or \$430,000. The Auditor had also found that utilization of facilities was very low in the fall, and that the cost of seasonal salaries alone far exceeded revenues. The Auditor estimated that closing of the historical attractions alone would lead to savings of over \$200,000.

During its hearing, the Committee heard that the Commission was taking steps to address the Auditor's concerns about duplication of administrative functions through centralization of all administrative services in a single location and rationalization of administrative functions. Implementation was expected to be achieved before the commencement of the 1989 operating season. Questioning by the Committee indicated that 18 of the Commission's 122 full-time positions were vacant pending the reorganization of the administrative structure.

The Committee also discussed the Commission's operating season, growing deficits, and heavy use of Management Board Orders with the Commission, and was informed of the Commission's view that the length of its operating season played a critical role in the Commission's fulfillment of its economic and social mandate.

In its Sixth Interim Report 1988, tabled January 17, 1989, the Committee noted that the mandate and objectives of the St. Lawrence Parks Commission lacked clarity. The Committee further felt that too little is known about the spin-off benefits of the Commission on the region, making it difficult to establish what the Commission's appropriate deficit level, if any, might be. In consequence, the Committee expressed its concern that deficits have been rising significantly in recent years, and that no clear long-term plan exists for the containment or even the future expected level of the deficit. The Committee recommended that:

- the Commission include in its deficit management plan (discussed below), the contribution that elimination of its vacant full-time positions might make to reduction of the Commission's future deficits;

- the Ministry of Tourism and Recreation commission independent studies to assess:
  - the Commission's economic and employment impacts on the region and on the province's tourism industry, to identify spin-offs, multiplier effects, and any other benefits which exist, in the context of their costs; and
  - the Commission's marketing and promotional activities, including recommendations for the improvement of attendance at Commission facilities;
- the St. Lawrence Parks Commission should develop a long-term (minimum five-year) operating plan, based on the findings of these studies, and submit it to the Public Accounts Committee for review by October 31, 1989. The plan should set deficit targets and should justify them in terms of their contribution to clearly stated regional and tourism objectives. As such, the plan should include objectives for expenditures, revenues, and attendance, and a capital expenditure plan and a marketing plan designed to attain these objectives; and
- using these clarified objectives, the Ministry and the St. Lawrence Parks Commission were to report back to the Committee by the same date on any required clarifications to the Commission's legislative mandate and Memorandum of Understanding.

The Committee also noted the concern expressed by the Chair of the St. Lawrence Parks Commission regarding the occasional need for Management Board Orders to replenish inventory of souvenirs when sales exceed forecast levels. The Committee requested the Provincial Auditor to enter into discussions with the Commission regarding reduction of constraints on the economy and efficiency of the Commission's souvenir sales function.

## SPECIAL REVIEW OF THE FINANCING OF THE SKYDOME PROJECT

### Introduction

In 1985 and 1986, the Public Accounts Committee conducted a major investigation into the financing of Toronto's domed stadium project (the SkyDome). In December 1985, the Committee issued an interim report containing three recommendations and a number of concerns. The recommendations were that:

- the province's contribution to the project not exceed the \$30 million announced by Premier William Davis on January 17, 1985;
- the two breweries not originally participating in the consortium, Carling O'Keefe and Molson's, be accommodated as participants in the financing of the stadium, and the Committee be informed as to the nature of the arrangement; and
- the Stadium Corporation of Ontario Ltd. (the provincial Crown Corporation established to construct and operate the project) provide the Committee with information on:
  - the design-construction competition and its winner;
  - the market value of advertising benefits that members of the private sector consortium helping to finance the project would receive in return for their funding; and
  - the new or amended financing arrangements for the stadium once finalized.

In early 1986, the Committee received some of the information requested from the Stadium Corporation, and conducted further investigations. It reported on those inquiries in its 1985 and 1986 Report, tabled early in 1987. The Committee reiterated its recommendation that provincial funding should not exceed \$30 million. As well, the Committee called for the Stadium Corporation to continue to report to the Committee any new or amended financing arrangements for the stadium. The Committee also commended the Corporation for having enlisted new corporate sponsors and recommended that the search for private sector funding continue.

Further to its recommendation, the Committee held a hearing on November 24, 1988, to receive an update from the Chief Executive Officer of the Stadium Corporation on financing arrangements. A number of developments had taken place since the previous investigation: both the costs and the amount of private sector financing had almost doubled, the project had become far more elaborate and complex, and some delays had occurred.



In broad terms, the Committee's recommendations had been fulfilled. The Committee had been informed about the design-construction competition, and a majority of the Committee had found that it had been fairly conducted. The province's funding to that time had not exceeded the \$30 million advanced to the Stadium Corporation in March 1985; the two breweries had been accommodated; and private sector funding had increased from \$70 million in early 1986 to \$140 million in late 1988.

However, several of the Committee's concerns as set out in its Interim Report were still current as of the 1988 hearing, particularly in light of the expansion in the scope and scale of the project. The increases in costs and the changes in financing and planned equity arrangements were felt by the Committee to merit consideration in terms of the long-term financial impact on the province. Another area of concern to the Committee in 1985 and 1986 had been the equity, openness, and financial implications of the arrangements with the consortium of private sector investors assisting in the financing of the SkyDome. These concerns also remained current.

The Committee received an explanation of the reasons for the cost increases, and heard a description of the new financing arrangements. In response to the Committee's questions, the witnesses described the package of benefits, the partnership agreement, and the profit and loss arrangements with the private sector sponsors, and discussed parking and transit issues and customer pricing within the stadium.

### **Cost Increases**

At the time of the Public Accounts Committee's last investigation, early in 1986, the stadium was expected to cost \$225 million. By November 1988, the cost had risen to \$427.5 million. The Stadium Corporation noted that many of the cost increases were due to a major expansion in the scope and scale of the project, involving the addition of some 600,000 square feet of leasable area to the project. Specific components in the cost increase which were mentioned by the Stadium Corporation included delays due to hearings by the Ontario Municipal Board (\$6.3 million); a 350-room hotel (\$66.8 million); restaurants and food preparation areas (\$8.5 million); the shell for a large McDonald's restaurant (\$3.5 million); a health club (\$5.5 million); and a sports and entertainment area (\$2.2 million). These total \$92.8 million. It was noted that the revenue-generating features which had been added, although increasing the overall cost of the project, were expected to pay for themselves and then to make a contribution to the project's overall financial position.

The Stadium Corporation also outlined a number of other factors which had played a role in the rising cost of the stadium, although not specifying their cost. These included structural upgrades, infrastructure external to the stadium, rising legal and other fees related to the project, additional boxes and club seats, and a labour stoppage in the summer of 1988. According to the Committee's research, the remaining \$110 million in cost increases includes the following:

- an increase of \$9.7 million at the time the design-construction contract was awarded to Ellis-Don in April 1986, due to various minor design changes and some cost increases;
- some \$10 million in various design upgrades regarding elevators, escalators, washrooms, storage, substructure upgrading, etc., during 1986 and 1987;
- about \$39 million, announced in October 1987, to add backlit billboards and 56 additional private boxes to the stadium and to modify the hotel from rooms to suites; and
- over \$44 million at the end of the construction strike: \$35.5 million to cover the costs of a faster building program and increased material and mechanical costs, and \$8.8 million for some new features, including a cable car ride in the stadium and a "SkyTent" to create smaller, acoustically improved spaces within the stadium.

### **Updated Financing Arrangements**

In September 1986, following the conclusion of the Ontario Municipal Board hearings, the cost of the project stood at \$242.6 million, and was expected to be financed as follows:

- \$30 million from the province;
- \$30 million from Metro Toronto;
- \$70 million from the 13-member consortium of private sector sponsors, and a further anticipated \$20 million through the addition of four more sponsors in the future;
- \$19.2 million from the sale of boxes and club seats;
- \$20 million from various promotional and fund-raising methods;
- \$15 million from a future public share offering; and
- the remaining funds through a line of credit from the Canadian Imperial Bank of Commerce, a consortium partner.

As well, the federal government is involved in the project, through Canadian National (CN), the owner of the site. CN is leasing the site for 99 years at a cost of \$1, and has provided \$20

million in site preparation. These contributions have never been included in descriptions of the project's cost or financing. CN is also a partner in the private sector consortium helping to finance the project. Originally it held two shares, for \$10 million; it now holds one share, for \$5 million. This contribution is included in the discussions of cost and financing.

The Stadium Corporation provided the Committee with a description of the current status of financing arrangements to cover the expected \$427.5 million cost of the project:

- \$30 million from the provincial government (questioning by the Committee identified that these funds had been provided early in the project and had earned some \$1.5 million in interest for the project);
- \$30 million from Metro Toronto (advanced in installments over a five-year period ending in 1989);
- \$140 million from the 28 corporate sponsors, and another \$5 million from one more anticipated sponsor, for a total of \$145 million (most of it also provided early in the project);
- \$60 million from the sale of boxes and club seats (triple the amount originally expected, due partly to the higher number of boxes and partly to much higher leasing revenues than originally anticipated); and
- a CIBC loan for the balance of \$162 million, to be repaid in eight years following the opening of the stadium.

The Committee noted that at the time of the previous investigations, the Stadium Corporation's intent had been to sell the private boxes, like condominiums, rather than renting them as favored by the Committee. The Stadium Corporation was commended for shifting its approach from selling to renting of the boxes, and thus accepting the Committee's recommendation in this area.

The Stadium Corporation also reported that project construction to that point had led to some \$250 million worth of value on the site, and that up until very recently, it had been financed with cash. The bank line of credit had been activated at the end of the week previous to the hearing.

### **Operational Issues**

The Committee then questioned the Stadium Corporation about some operational matters arising out of its earlier investigations.



### Transportation and Parking

The Committee expressed concern about the adequacy of the transportation system and of area parking to accommodate the demands which would be placed upon it by the SkyDome. In response, the Stadium Corporation indicated that it was working with the various responsible agencies -- the City of Toronto, Metro Toronto, GO Transit, Via Rail, CN, the provincial Ministry of Transportation -- to coordinate a solution. It was felt that existing public transit is more than capable of handling the demands which may be placed upon it by the SkyDome, especially as many stadium events will take place outside peak hours. Indeed, it was felt that the stadium might smooth out peak usage by motivating people working in the downtown core to remain downtown for the evening rather than returning home immediately after work.

The Committee noted that while the overall transit system might be adequate to carry the load, service was not equally available to all areas in and around Metro; for example, north-south transit on the GO system was more limited than east-west services. The Stadium Corporation responded that it was working closely with GO Transit to upgrade service where feasible.

The Stadium Corporation also discussed the parking situation. It was felt that parking availability would be adequate, and compared very favorably to that of Exhibition Stadium. Construction of some new buildings (e.g. CBC) was expected to lead to some short-term impacts on availability owing to loss of at-grade parking spaces, but greater availability in the long term due to the new parking facilities in the buildings. However, congestion was of some concern. The Stadium Corporation indicated that it was planning a major promotional campaign to encourage people to take public transit to the facility. The Committee requested a copy of the transportation strategy which the Stadium Corporation had recently submitted to the City of Toronto. The information was provided the week following the hearing.

### Cost to Consumers of Products and Services in the SkyDome

The Committee asked if the arrangements for the operation of the stadium included any protection for the consumer in terms of the prices charged for products and services such as refreshments, given that the consortium approach to the project ruled out any competition within product categories. The Stadium Corporation indicated that no controls would be exercised over prices charged by concessionaires to stadium users, likening its role to that of a landlord. It was noted that an identical situation existed at other facilities such as Maple Leaf Gardens, the Big O, and B.C. Place. It was acknowledged that prices at the stadium would likely be higher than for similar products outside the stadium.

## **Agreements With Consortium Members**

In his introductory remarks, the Chair had noted some concerns of the Committee regarding the arrangements which had been made with the consortium of private sector companies helping to finance the SkyDome. He observed that the private sector's involvement in the SkyDome was one of the features which make the project "one-of-a-kind", and that the investment of \$5 million each by 28 firms in exchange for certain benefits has been praised by some as a unique example of public/private sector cooperation and a valuable means of injecting business know-how as well as funds into the project. However, it was noted, this approach has also been criticized for its closed selection process and its exclusion of firms competing with consortium members. Concern has also been expressed about the potential for conflicts of interest in business dealings between the Stadium Corporation and the consortium members, and the value of the benefits received by the members in relation to their \$5 million contributions (\$500,000 of which was an equity investment and \$4.5 million of which was in payment for the package of sponsor benefits).

Accordingly, the Committee questioned the Stadium Corporation about the arrangements which had been made. In response, the agreement was described. Parties to the agreement are firstly, the Stadium Corporation, secondly a company called Dome Consortium Investments Inc. which has as investors the various sponsors, and thirdly the individual sponsors. The agreement involves a number of schedules and subsequent amendments and is fairly complex. It sets out the arrangements for construction, financing, management, and operation of the stadium, the equity, profit and loss-sharing arrangements, and the benefits accruing to the corporate sponsors. These are summarized below.

### Ownership and Control of the Project

The Stadium Corporation, a provincial Crown Corporation wholly owned and controlled by the Province, is responsible for the construction of the stadium. As individual corporate sponsors become involved with the project, they enter into the agreement and provide their contribution as an interest-free loan to the project. Upon completion of the project or shortly before, ownership is to be transferred to a new body, a partnership of the Stadium Corporation and Dome Consortium Investments Inc. At that time, the funds which the consortium has loaned to the project will be converted to equity. The Stadium Corporation anticipated that this transfer of ownership would take place in January or February of 1989.



Ownership shares are based on the following approach: the province is deemed to have contributed \$60 million to the project, including Metro's contribution, since Metro did not desire equity participation in the project. Of this \$60 million, 10% will be held in common shares, which entitle the province to a share of the earnings, while the balance will be preferred shares, which do not earn any dividends but which would be repaid if the project is ever liquidated.

The private sector, meanwhile, is deemed to have contributed \$145 million (counting the \$15 million from the three breweries, who do not share in ownership, plus one new member not yet identified). Of this sum, 10% or \$14.5 million is considered an equity investment and will be held in common, dividend-earning shares. The balance is in payment for the various sponsor benefits discussed below.

These arrangements result in the province owning 29.3% of the project, while the private sector would own the remaining 70.7%. Although the private sector would have majority ownership, the arrangements provide for the province to have majority control of both the Management Board and the Board's Executive Committee, which will operate the project on behalf of the partnership.

#### Profit and Loss Sharing Arrangements

Profits if any would be split on the basis of these ownership shares. The Stadium Corporation felt strongly that the project would be profitable, allowing the bank loan to be paid during the first decade and then generating substantial returns. This was attributed to the increased number and diversity of rent-paying, revenue-generating operations within the project. In response to a question from the Committee, it was indicated that the project's downtown location also played a major part in its positive financial prospects, making it more accessible, raising its profile, and giving rise to a greater number of potential uses. The involvement of high-profile private sector companies was also felt to have made a substantial contribution to the project, leading to revenues from boxes, club seats, and advertising which are far higher than at other stadiums. As such, the Stadium Corporation felt that "the possibility of cash-flow deficiency has really become a purely academic proposal".

The Committee inquired what arrangements existed in the event that these expectations were unfounded and the project in fact experienced losses, and heard that arrangements for sharing of any losses differed from those for sharing of profits. The province would lend money, via



the Stadium Corporation, to cover any losses, until the project operated in the black, upon which the loans would be repaid. The private consortium members would have the right, but not the obligation, to pick up a proportionate share of the losses. This right would be exercised once every three years. Under a formula contained in the agreement, consortium members are allowed a certain amount of losses without any penalty for non-sharing. If a member were to choose not to pay its share of the losses beyond that threshold, it would be penalized through, firstly, a reduction in that member's share of the project and a transfer of that ownership to the remaining members of the partnership, and secondly the loss of renewal rights to the sponsor benefits discussed below.

Concern was expressed by some Committee members that this constituted a partnership for the good times but not for the bad times, and that the province was left exposed in the event that revenue forecasts proved optimistic. The Stadium Corporation conceded that in a worst-case scenario -- heavy losses and a pull-out by all of the consortium members -- the province could theoretically be left liable for some \$150 million in loans as well as ongoing operating shortfalls, in addition to the \$30 million already invested in the project. However, the Stadium Corporation felt strongly that this scenario would not occur. The Chief Executive Officer stated, ". . . the \$30 million is paid back totally by virtue of the ownership of the project within ten years according to current forecasts, which I am saying are conservative".

It was further noted by the Chief Executive Officer that the province would benefit not only through ownership and equity, but also through the economic activity generated by the project. As one example of the latter benefits, it was noted that a 1985 Coopers and Lybrand study of the project had projected that it would generate \$52 million annually in provincial tax revenues. The Committee requested a copy of the study; the document was received the following week.

### Sponsor Benefits

The Committee questioned the Stadium Corporation about the various benefits provided to the consortium members in exchange for their investment in the project. The Stadium Corporation noted that of the \$5 million investment, \$500,000 was an equity investment. The remaining \$4.5 million purchased the benefits for a period of 10 years, plus the right to renew the benefits in the tenth year for a further 89 years. It was assumed that consortium members would exercise this right, leading to a 99-year package. The benefits are as follows:

- a private box currently valued at \$225,000 per year, including a right to six parking spaces, which could be reduced to four spaces by stadium management. The Committee observed that this benefit alone during the first 10 years was worth close to half the \$4.5 million investment. In response, the Stadium Corporation stated that if a net present value calculation was applied, the value of the box for the first 10 years was \$1.85 million, rather than \$2.25 million, and that if the calculation was carried out for the 99 years that consortium members would have the box, the net present value was \$1.93 million, or only \$800,000 more than the 10-year value.
- promotional benefits, such as the use of the SkyDome logo on the letterheads of corporate sponsors, identification as a founder of the SkyDome in souvenir books and other materials, etc. Use of the logo with the sponsor's commercial products, rather than in-house, must be paid for. Originally each sponsor was to have an entrance gate named after it, but as there are only ten gates, this benefit has been virtually eliminated.
- the right of first refusal to advertise within the Skydome, at rates set by the Stadium Corporation on the advice of an independent marketing consultant. If a sponsor exercises the right at a level of \$200,000 of advertising a year, no advertising from competitors will be accepted by the SkyDome. It was noted that all the consortium members have in fact purchased at least this minimum, leading to advertising revenues of some \$7 million, compared to a maximum of less than \$1 million at any other comparable facility.
- preferred supplier status, provided price and quality are competitive with other suppliers. The Chief Executive Officer noted some examples. The line of credit from the Canadian Imperial Bank of Commerce is at prime. It was stated that Coca-Cola's prices are compared to those of its competitors on a day-to-day basis.\* The agreement with McDonald's Restaurants is based on a independent consultant's study of the maximum that might be achieved through a tender process. It was noted that this agreement calls for McDonald's to expend over \$30 million on finishing of the restaurants and snack stands, and that the percentage of gross sales being paid by McDonald's to the SkyDome is 38%, compared to 26% by its counterpart at the Canadian National Exhibition.

The Committee inquired about the approach to selection of corporate sponsors, noting the policy of non-competition among consortium members and hence the exclusion of some firms. The Chief Executive Officer indicated that the selection of some of the consortium members had predated his joining the project, but felt that the early members had joined the project for reasons of community involvement rather than as a business opportunity. Since that time, the commercial prospects for the project have brightened considerably, but sponsors have continued to be recruited on the same terms and conditions.

Given the improved financial prospects for the project, and the early involvement of a number of prominent firms, subsequent recruitment of sponsors has proven less difficult than at first. Despite this, it was felt that only one or two more members at the maximum could be recruited, and that the market for sponsors has been fully taken up. In light of the project's strong

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\* Subsequent Committee inquiries indicated that these price comparisons are done via McDonald's, to which Coca-Cola supplies its product.



financial prospects, some competitors of existing sponsors are now concerned about their non-involvement. The Chief Executive Officer suggested that some of these firms had had an earlier opportunity to participate in the project and that they had been less interested in involvement at that time.

The Committee asked if the Stadium Corporation had entered into discussions with any other potential suppliers, or whether they had dealt with only the consortium members from the onset. Citing McDonald's as an example, the Chief Executive Officer stated that the agreement with McDonald's had been finalized on May 8, 1986, subsequent to his joining the Stadium Corporation, and that there had been some discussion with other potential suppliers. In general, he noted, consortium members had been selected in terms of their potential benefit to the project, although some members were in a position to have substantial involvement, while others could play only a fairly minor commercial role.

The Committee asked about the tax implications of private sector involvement in the project, noting that most of the investment was tax deductible at corporate tax rates ranging from 44% to 50%. As such, the Committee suggested, \$500,000 of the \$5 million investment was equity, almost half the remainder would be recovered through the tax system, and the box accounted for nearly \$2 million, with the result that the private sector members had in fact paid only a nominal sum for the 99-year advertising rights and supplier benefits discussed above.

The Stadium Corporation indicated that \$4.2 million of the \$5 million contribution by each of the members was deductible over the initial 10-year period, but was unable to specify the after-tax cost of the investment to the sponsors, owing to differences in tax brackets for the various members and to net present value considerations. Nonetheless, it was felt that the cost to consortium members was somewhat higher than suggested by the Committee. However, it was conceded that membership in the consortium was "a much better deal than it used to be".

Some concern was felt by members of the Committee that they had been unable to fully scrutinize the issues of the equity and appropriateness of the arrangements with corporate sponsors, and the benefits realized by the sponsors from their \$5 million investment, owing to the adjournment of the meeting at noon.



## Recommendation

The Committee notes that the Stadium Corporation has provided some documents to the Committee as requested at the hearing, and accepts the right of individual members of the Committee to gather further information from the Stadium Corporation. The Committee requests the assistance of the Provincial Auditor in reviewing the information and any new developments at the SkyDome pertinent to the Committee's concerns about the project, and notes that it may in future recall the Stadium Corporation or other parties involved in the development of the project, to discuss those concerns.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

January - December 1987

Thursday, 15 January 1987

10:00 a.m.                      Draft 1985 and 1986 Report

Thursday, 22 January 1987

10:00 a.m.                      Re:- Convert to Rent Program  
From the Ministry of Housing:

Ward Cornell  
Deputy Minister

Len Pitura  
Assistant Deputy Minister  
Community Housing

Sue Corke  
Manager  
Housing Conservation Unit

Murray Wilson  
Executive Director  
Field Operations

Edward J. Bissinger  
Acting Manager  
Housing Programs

Byron Hill  
Central Regional Housing  
Programs Manager

Motions re: Attempted Serving  
of the Member for Brantford  
with a Writ

Thursday, 29 January 1987

10:00 a.m.

Notice of Motion re: Exploracom

Re:- Convert-to-Rent Program

From the Ministry of Housing:

Ward Cornell  
Deputy Minister

Len Pitura  
Assistant Deputy Minister  
Community Housing

Sue Corke  
Manager  
Housing Conservation Unit

Murray Wilson  
Executive Director  
Field Operations

Edward J. Bissinger  
Acting Manager  
Housing Programs

Bryon Hill  
Central Regional Housing  
Programs Manager

David Hodgson  
Director  
Ontario Buildings Branch

Notice of Motion re: Convert-to-  
Rent Program

Thursday, 5 February 1987

10:00 a.m.

Motion re: Exploracom

Motion re: Convert-to-Rent  
Program



Re:- Convert-to-Rent Program

From the Ministry of Housing:

Ward Cornell  
Deputy Minister

Len Pitura  
Assistant Deputy Minister  
Community Housing

Sue Corke  
Manager  
Housing Conservation Unit

Murray Wilson  
Executive Director  
Field Operations

Edward J. Bissinger  
Acting Manager  
Housing Programs

Byron Hill  
Central Regional Housing  
Programs Manager

David Hodgson  
Director  
Ontario Buildings Branch

Bert Le Mesurier  
Senior Solicitor  
Legal Branch

Crom Sparling  
Director  
Housing Supply Policy Branch

Thursday, 12 February 1987

10:00 a.m.

Re:- Convert-to-Rent Program

From the Ministry of Housing:

Ward Cornell  
Deputy Minister

Len Pitura  
Assistant Deputy Minister  
Community Housing

Sue Corke  
Manager  
Housing Conservation Unit

Murray Wilson  
Executive Director  
Field Operations

Edward J. Bissinger  
Acting Manager  
Housing Programs

Byron Hill  
Central Regional Housing  
Programs Manager

David Hodgson  
Director  
Ontario Buildings Branch

Bert Le Mesurier  
Senior Solicitor  
Legal Branch

Crom Sparling  
Director  
Housing Supply Policy Branch

Motion re: Graham Software

Monday, 23 March 1987

10:00 a.m.  
and  
2:00 p.m.

Re:- Graham Software

From the Ontario Development  
Corporation:

David MacKinnon  
President and Chief Executive  
Officer

Brian Cass  
Director  
Legal Services

F.R. Winter  
Director  
Special Financial Services

From Graham Software:

Terry Graham  
President

Robin J. Wigdor  
Legal Counsel and Secretary

Ken Wawrew  
Executive Vice-President

Former IDEA Corporation  
Officials:

William Douglas

Harold Blakley

Bruno Maruzzo

Tuesday, 24 March 1987

10:00 a.m.  
and  
2:00 p.m.

Re:- Graham Software

From Graham Software:

Terry Graham  
President

Robin J. Wigdor  
Legal Counsel and Secretary

Ken Wawrew  
Executive Vice-President

Wednesday, 25 March 1987

10:00 a.m.  
and  
2:00 p.m.

Re:- Graham Software

Former IDEA Corporation  
Officials:

Harold Blakley

William Douglas

Bruno Maruzzo



From the Ontario Development  
Corporation:

David MacKinnon  
President and Chief Executive  
Officer

Brian Cass  
Director  
Legal Services

F.R. Winter  
Director  
Special Financial Services

From the Ministry of Industry,  
Trade and Technology:

Michael St. Amant  
Director  
Innovation Ontario Corporation

From the Ministry of Community  
and Social Services:

Peter Barnes  
Deputy Minister

Motion re: Sub-Committee Report  
Schedule

Thursday, 26 March 1987

10:00 a.m.  
and  
2:00 p.m.

Re:- Graham Software  
Former IDEA Corporation  
Officials:

William Douglas

Harold Blakley

From Graham Software:

Terry Graham  
President

Robin J. Wigdor  
Legal Counsel and Secretary

Ken Wawrew  
Executive Vice-President

From the Ontario Development  
Corporation:

David MacKinnon  
President and Chief Executive  
Officer

Brian Cass  
Director  
Legal Services

F.R. Winter  
Director  
Special Financial Services

Re:- Court House Facilities

From the Ministry of the Attorney  
General:

R.F. Chaloner  
Deputy Attorney General

Glenn H. Carter  
Assistant Deputy Attorney  
General  
Courts Administration

From the Ministry of Government  
Services:

Gerard J.M. Raymond  
Deputy Minister

Tony Guy  
Executive Director  
Property Development Division

Friday, 27 March 1987

10:00 a.m.

Re:- Court House Facilities

From Hamilton Law Association:

James Turnbull  
President

Bernard Zabel  
Vice-President of Criminal  
Lawyers Association

From Elgin Law Association:

Marietta L.D. Roberts  
Past President

Michael O'Dea  
Immediate Past President

Steve Gibson  
Present Vice-President

Murray Hennessey  
Senior Member

From Oxford Law Association:

Barbara Legate  
Member

Re:- Graham Software

Thursday, 28 May 1987

10:00 a.m.

Organization

Notice of Motion re: IDEA  
Documents

Motion re: Committee Budget

Motion re: Committee Travel

Schedule

Thursday, 4 June 1987

10:00 a.m.

Notice of Motion re: Fund-raising  
Event

Motions re: IDEA Documents

Thursday, 11 June 1987

10:00 a.m.

Re:- Graham Software

Motion re: Fund-raising Event

Thursday, 18 June 1987

10:00 a.m.

Motions re: Fund-raising Event

Chairman's Statement re: IDEA  
Documents



Thursday, 25 June 1987

10:00 a.m.

Re:- IDEA Documents

Jack Biddell, F.C.A.

Re:- Fund-raising Event

Hon. Murray Elston, MPP  
Minister of Health

Sunday, 5 July 1987

Ninth Annual Conference  
Canadian Council of  
Public Accounts Committees  
Quebec City, Quebec

Monday, 6 July 1987

Ninth Annual Conference  
Canadian Council of  
Public Accounts Committees

Tuesday, 7 July 1987

Ninth Annual Conference  
Canadian Council of  
Public Accounts Committees

Wednesday, 8 July 1987

Ninth Annual Conference  
Canadian Council of  
Public Accounts Committees

Thursday, 26 November 1987

10:00 a.m.

Organization

Briefing by Douglas F. Archer,  
Provincial Auditor

Thursday, 10 December 1987

10:00 a.m.

Briefing by Patrick Reid,  
Former Committee Chairman

Thursday, 17 December 1987

9:00 a.m.

1987-88 Estimates of the Office  
of the Provincial Auditor

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February 1988 - February 1989

Monday, 15 February 1988

2:00 p.m.                      Briefing by Committee Research  
Officer

Tuesday, 16 February 1988

10:00 a.m.                      Briefing by Committee Research  
Officer

2:00 p.m.                      Re:- Section 4.8, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

Ron LeNeveu  
Assistant Deputy Minister  
Administration, Finance  
and Health Insurance

Malcolm Gibson  
General Manager  
Ontario Health Insurance Plan

John Dorland  
Senior Manager  
Planning and Development

Eric Murray  
Medical Consultant



Wednesday, 17 February 1988

10:00 a.m.  
and  
2:00 p.m.

Re:- Section 4.9, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

David W. Corder  
Assistant Deputy Minister  
Mental Health

Yale S. Drazin  
Director  
Mental Health Planning Branch

Theresa Firestone  
Acting Director  
Mental Health Operations  
Branch

Debi Mauro  
Director  
Community Mental Health Branch

Thursday, 18 February 1988

10:00 a.m.

Re:- Section 4.9, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

David W. Corder  
Assistant Deputy Minister  
Mental Health

Yale S. Drazin  
Director  
Mental Health Planning Branch

Theresa Firestone  
Acting Director  
Mental Health Operations  
Branch

Debi Mauro  
Director  
Community Mental Health Branch

Monday, 22 February 1988

10:00 a.m.  
and  
2:00 p.m.

Re:- Section 4.7, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of the  
Environment:

Gary S. Posen  
Deputy Minister

Dr. David Balsillie  
Assistant Deputy Minister  
Environmental Services  
Division

Walter J. Giles  
Associate Deputy Minister  
Intergovernmental Relations  
and Strategic Projects  
Division

Andre Castel  
Executive Director  
Corporate Resources Division

Erv C. McIntyre  
Executive Director  
Approvals and Engineering

Tuesday, 23 February 1988

10:00 a.m.

Re:- Section 4.11, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Skills and  
Development:

Glenna Carr  
Deputy Minister

Frank Kidd  
Executive Director  
Finance and Administration

William G. Wolfson  
Director  
Youth Employment Services  
Branch

2:00 p.m.

Re:- Section 4.12, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of the  
Solicitor General:

John D. Takach  
Deputy Solicitor General

Dean Paquette  
Assistant Deputy Solicitor  
General  
Public Safety Division

Lorne Edwards  
Executive Director  
Program Resources Division

Robert Fletcher  
Director  
Information Technology  
Services Branch

Earl F. Gibson  
Chief Superintendent  
Ontario Provincial Police  
Acting General Manager  
OPP Telecommunications Project

David W. Mailer  
Director  
Internal Audit Branch

Dr. Ross Bennett  
Chief Coroner

Wednesday, 24 February 1988

10:00 a.m.

Re:- Section 4.5, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Correctional  
Services:

Robert M. McDonald  
Deputy Minister

Neil T. McKerrell  
Director  
Offender Programming and  
Operational Support

Dr. Paul W. Humphries  
Senior Medical Advisor  
and Manager of Health Services



2:00 p.m.

Re:- Section 3.4, 1987 Annual  
Report of the Provincial Auditor

From the Management Board  
Secretariat:

John R. Sloan  
Secretary of the Management  
Board

Domenic Alfieri  
Executive Co-ordinator  
Management Policy Division

Allan Rae  
Audit Advisor  
Management Policy Division

Thursday, 25 February 1988

10:00 a.m.

Re:- Section 5.2, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Consumer and  
Commercial Relations:

Valerie A. Gibbons  
Deputy Minister

From the Liquor Control Board  
of Ontario:

Jack Ackroyd  
Chairman

Len F. Pitura  
Executive Vice-President

William McLelland  
Acting Vice-President  
Retail Division

Henry M. Toran  
Director  
Durham Warehouse  
Products and Distribution  
Division

2:00 p.m.

Re:- Section 5.4, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Housing:

Gardner Church  
Deputy Minister

Donald A. Bascombe  
Director  
Operations Review and Audit  
Branch

From the Ontario Housing  
Corporation:

Byron Hill  
Acting Executive Director  
Housing Field Operations

From the Metropolitan Toronto  
Housing Authority:

Kevin Gaul  
General Manager

From the Canadian Union of Public  
Employees:

George Mammoliti  
President of Local 767

Friday, 26 February 1988

9:00 a.m.

Draft Report

Monday, 7 March 1988

From the Office of the Auditor  
General of Canada:

Ken Dye  
Auditor General

Ray Dubois  
Deputy Auditor General

Mike McLaughlin  
Principal  
Audit Planning and  
Co-ordination

Mark Hill  
Principal  
Parliamentary Liaison

From the House of Commons  
Standing Committee on Public  
Accounts:

Aideen Nicholson  
Chair

Alan Redway  
Member

Thomas Hall  
Committee Clerk

Eric Adams  
Committee Research Officer

Tuesday, 8 March 1988

From the Office of the  
Comptroller General of Canada:

Andrew Macdonald  
Comptroller General (Acting)

Bernard Gorman  
Deputy Comptroller General

Jim McCrindle  
Deputy Comptroller General

John Mayne  
Director  
Evaluation and Policy

Doug Wood  
Director  
Planning and Co-ordination

Wednesday, 9 March 1988

From the Congressional Research  
Service, Library of Congress:

Paul S. Rundquist  
Specialist  
American National Government

From the Embassy of Canada:

Leonard H. Legault  
Deputy Chief of Mission and  
Minister (Economic)

William Dymond  
Minister-Counsellor  
(Commercial)

Jonathan Fried  
First Secretary



From the Law Firm of Arnold &  
Porter:

Robert E. Herzstein  
Senior Partner

Thursday, 10 March 1988

From the General Accounting  
Office:

The Honourable Charles A.  
Bowsher  
Controller General of the  
United States

Peter V. Aliferis  
Director  
Office of International Audit  
Organization Liaison

Donald Drach  
Deputy Director  
Office of International Audit  
Organization Liaison

Vincent Griffith  
Legislative Attorney  
Office of Congressional  
Relations

From the House Committee on  
Government Operations:

The Honourable William F.  
Clinger, Jr. (Republican -  
Pennsylvania)  
Member

From the Congressional Budget  
Office:

The Honourable Stanley L.  
Greigg  
Director of International  
Government Relations

James L. Blum  
Assistant Director for Budget  
Analysis

Friday, 11 March 1988

From the House Committee on the  
Budget:

The Honourable William L. Gray  
Chairman

Shirley L. Ruhe  
Director of Budget Priorities

From the House Committee on  
Public Works:

The Honourable James L.  
Oberstar (Democrat-Minnesota)  
Chairman  
Sub-committee on  
Investigations and Oversight

From the House Committee on  
Appropriations:

The Honourable David R. Obey  
(Democrat - Wisconsin)  
Chairman  
Sub-committee on Foreign  
Operations

Thursday, 14 April 1988

10:00 a.m.

Re:- Section 2.2, 1987 Annual  
Report of the Provincial Auditor

From the Office of the Provincial  
Auditor:

Ken W. Leishman  
Executive Director  
Reporting and Special Audits

Gordon A. Calderwood  
Director  
Reporting and Standards Branch

John Sciarra  
Administrative Assistant

Thursday, 21 April 1988

10:00 a.m.

Draft Report

Notice of Motion re:  
Audit of day pass approvals for  
forensic patients in psychiatric  
hospitals

Thursday, 28 April 1988

10:00 a.m.

Re:- Section 4.4, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Colleges and  
Universities:

Dr. Thomas A. Brzustowski  
Deputy Minister

David Lyon  
Executive Co-ordinator  
Corporate Planning and  
Services

Peter Wright  
Director  
College Affairs Branch

Richard Kleiman  
Director  
Students Awards Branch

Doug Anderson  
Manager  
Verification  
Students Awards Branch

11:30 a.m.

Motion re: Audit of day pass  
approvals for forensic patients  
in psychiatric hospitals

Thursday, 5 May 1988

10:00 a.m.

Draft Report

Thursday, 12 May 1988

10:00 a.m.

Re:- Section 6.4, 1987 Annual  
Report of the Provincial Auditor

From the Office of the Provincial  
Auditor:

Douglas F. Archer  
Provincial Auditor

Ken W. Leishman  
Executive Director  
Reporting and Special Audits

Robert Siddall  
Audit Manager  
Reporting and Standards  
Branch



Thursday, 19 May 1988

9:30 a.m. Briefing by Committee Research Officer

10:00 a.m. Re:- Section 4.10, 1987 Annual Report of the Provincial Auditor

From the Ministry of Northern Development and Mines:

Brock Smith  
Deputy Minister

Dr. Victor G. Milne  
Director  
Ontario Geological Survey  
Mines and Minerals Division

W. Dennis Tieman  
Assistant Deputy Minister  
Mines and Minerals Division

Dr. John Gammon  
Director  
Mineral Development and Lands Branch  
Mines and Minerals Division

Thursday, 26 May 1988

10:00 a.m. Draft Report

Thursday, 2 June 1988

10:00 a.m. Notice of Motion re: audit of community release program for forensic psychiatric patients

Thursday, 9 June 1988

10:00 a.m. Draft Report

Monday, 4 July 1988

10:00 a.m. Draft Report  
and  
2:00 p.m.

Tuesday, 5 July 1988

1:00 p.m. Draft Report

Wednesday, 6 July 1988

10:00 a.m. Draft Report  
and  
2:00 p.m.

Thursday, 7 July 1988

10:00 a.m. Draft Report  
and  
2:00 p.m.

Saturday, 9 July 1988

2:00 p.m. Briefing by Committee Research  
Officer

Sunday, 10 July 1988

Tenth Annual Conference  
Canadian Council of  
Public Accounts Committees  
Halifax, Nova Scotia

Monday, 11 July 1988

Tenth Annual Conference  
Canadian Council of  
Public Accounts Committees

Tuesday, 12 July 1988

Tenth Annual Conference  
Canadian Council of  
Public Accounts Committees

Wednesday, 13 July 1988

Tenth Annual Conference  
Canadian Council of  
Public Accounts Committees

Thursday, 10 November 1988

10:00 a.m. Organization  
  
Motion re: Sub-committee travel  
  
Briefing by Committee Research  
Officer

Thursday, 17 November 1988

10:00 a.m.

Re:- Section 5.5, 1987 Annual  
Report of the Provincial Auditor

From the Ministry of Tourism and  
Recreation:

James W. Keenan  
Deputy Minister

From the St. Lawrence Parks  
Commission:

George N. Speal, Q.C.  
Chairman

Robert Mitton  
General Manager

Steven Gourlay  
Co-ordinator  
Finance and Administration

Thursday, 24 November 1988

10:00 a.m.

Re:- SkyDome

From the Stadium Corporation  
of Ontario Ltd.:

Charles Magwood  
President  
Chief Executive Officer

Jamie MacArthur  
Vice-President  
Finance

Thursday, 1 December 1988

9:00 a.m.

Draft Report

Thursday, 15 December 1988

10:00 a.m.

1988-89 Estimates of the Office  
of the Provincial Auditor

Thursday, 5 January 1989

10:00 a.m.

Draft Report

Thursday, 12 January 1989

10:00 a.m.

Draft Report



Thursday, 19 January 1989

10:00 a.m. Draft Report

Thursday, 26 January 1989

10:00 a.m. Draft Report

Thursday, 2 February 1989

10:00 a.m. Draft Report













Queen's Park  
May 1988

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour to  
present its Report and commends it to the House.

A handwritten signature in cursive script, reading 'Ed Philip'.

Ed Philip, M.P.P.,  
Chairman.





STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP AS OF MONDAY, 23 NOVEMBER 1987

ED PHILIP  
Chairman

BILL BALLINGER

STEVEN OFFER

DOUG CARROTHERS

ALAN W. POPE

MIKE DIETSCH

GILLES POULIOT

JOAN FAWCETT

ROBERT W. RUNCIMAN

SHELLEY MARTEL

DAVID W. SMITH

---

Douglas Arnott  
Clerk of the Committee

Wendy MacDonald  
Research Officer

Alison Drummond  
Research Officer





STANDING COMMITTEE ON PUBLIC ACCOUNTS

SUBSTITUTE MEMBERS

PETER ADAMS

LINDA LeBOURDAIS

KEN BLACK

CINDY NICHOLAS

SAM CUREATZ

YVONNE O'NEILL

CAM JACKSON

DAVID REVILLE



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The Provincial Auditor's 1987 Report, Section 4.8  
Weak Procedures and Controls, Health Insurance Program  
Ministry of Health

## Introduction

On February 16, 1988, the Committee considered the Auditor's findings of weaknesses in three computer systems which support the delivery of the Ontario Health Insurance Program (OHIP). Two of the systems provide information for the main system of billings and payments (the Subscriber Administration System and the Health Resources Register), while the third is a separate smaller system for out-of-province hospital claims. The Auditor concluded that the computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and has not kept pace with advances in computer systems design.

Specific problems included the following:

- payments were being made for services to patients who have not paid their OHIP premiums, under the "Good Faith" administrative policy;
- the Claims Reference File which contains the Subscriber Administration System's historical information on use of medical services by subscribers listed 24.7 million participants, almost three times the population of Ontario;
- a number of discrepancies existed between the Health Resources Register (OHIP's list of physicians eligible to practise), and the records of the College of Physicians and Surgeons;
- large payments were being made for the care of long-term psychiatric patients and for addiction treatments in the U.S.;
- payments were made for out-of-province services that, on the information provided, were physically impossible.

The Committee reviewed these concerns with the Deputy Minister of Health, the Assistant Deputy Minister responsible for OHIP, and the General Manager of OHIP. The Ministry devoted some time to explaining the current system, and responded to the Committee's questions about the weaknesses noted by the Auditor. The Ministry indicated that it hoped to resolve many of these concerns through a proposed new computer system for which it planned to seek approval in April 1988.





## Description of Existing System

The Ministry provided the Committee with a description and process diagram of the current computer system, which is massive and extremely complex. The aspects being investigated by the Committee were some of the sub-sets used to verify claims for payment: patient eligibility (the Subscriber Administration System), treatment eligibility (various checks including the Claims Reference File), and practitioner eligibility (the Health Resources Register). Questioning elicited the following points:

- The current system is composed of a number of subsystems which have separately developed since the 1950s, and which are not integrated with each other.
- As such, the current system only allows checking of claims for their validity, through sequential checks of the individual subsystems. Since the parts are not integrated, the system is not sophisticated enough to allow other functions such as epidemiological research.
- The current computer system costs \$7 million a year in hardware and operating costs, and \$2.75 million a year for the 55 programmers who keep it functioning and who modify it to meet changing policies in the health insurance area.
- The overall OHIP premium system costs about \$25 million a year to operate and employs some 660 staff. The Ministry noted that the majority of expenses are incurred in the premium assistance area rather than the premium collection area.
- The computer system processed 81 million claims in 1986-87 and is estimated to have processed 93 million claims in 1987-88. The Auditor's staff noted that the system requires over 23 hours a day to process the current volume of claims, and that the system is not capable of accomodating further growth without serious backlogging of claims.

The Deputy Minister made the following observations with respect to the computer system: "The current computer system . . is subject to errors both of commission and omission . . . if we get any major equipment breakdowns, if we lose the ability to process that data for any extended period, we will have considerable difficulty with the system. We are dealing with a system which is dying in terms of its life expectancy in any event, and ought to be replaced and upgraded."



## Claims Paid Under Good Faith Policy

The Auditor had noted that, in a sample of 12,000 OHIP records, many payments were being made to practitioners in cases where the subscriber's OHIP contract had lapsed, i.e. premiums had not been paid. The Ministry of Health estimates that 2% of total OHIP claims, or \$50 million, are paid out annually under this administrative policy, referred to as the Good Faith Policy.

The Ministry had indicated, in its response to the Auditor, that a review of the Good Faith Policy in 1984 had shown that in 80% of the cases, patients were eventually found to have their OHIP coverage in good standing. As such, of the \$50 million initially paid out each year, approximately \$10 million is on behalf of lapsed subscribers.

The Committee questioned whether it might be feasible to establish a verification process for OHIP coverage at the point of service. The Ministry felt that this would require a "substantial bureaucracy" and that it would place the practitioner in a difficult position with respect to his or her professional duty to provide care. The Deputy Minister stated that the Good Faith Policy "might not be the most prudent financial policy," but that it was "the most humane and concerned way of running the shop."

## High Number of Participants, Claims Reference File

The Committee questioned the presence of almost 25 million participants on the system's historical Claims Reference File, given that the province's population is only 9 million. The Ministry acknowledged the high number of listings, but provided some explanation:

- 7 million of the 25 million are "empty" files, which contain no information but which have not been purged from the system;
- another 7 million are inactive numbers (e.g. where the subscribers are dead, or no longer resident in Ontario, or have changed numbers) which are kept for seven years as Ministry policy;
- 9 million are the existing subscriber population; and
- the remaining 2.5 million are files which duplicate the existing subscriber population due to differences in the data on the claim (e.g. different names, numbers).





The Ministry noted that the size of the file does not affect the claim processing speed, which is virtually instantaneous. However, the existence of duplicative files is of concern, in that it undermines the validation process by making it more difficult to determine whether a patient listed under several names or numbers has had particular treatments before.

### **Discrepancies in Data, Health Resources Register**

The Committee questioned the Ministry about the Auditor's findings of various discrepancies between the system's Health Resources Register (established in 1982) and the databanks of the Ontario College of Physicians and Surgeons. The Ministry indicated that it was always difficult for two systems to mirror each other perfectly, and noted that part of the problem lay in manual procedures which are only recently being automated. The Ministry felt that the problems of different data would lessen further as automation and upgrading of both systems continued.

The Committee asked about the extent to which the existing computer system can detect fraud. The Ministry stated that an external check is done each year, which shows that the rate of physician fraud is very low. With respect to subscribers, the system currently rejects about 3.5% of patient claims as ineligible for payment. Of these, 3% are subsequently found to have been erroneously filled out in terms of data.

### **Concerns, Out-of-Province Claims System**

A separate computer system processes claims for out-of-province treatments. Since all provinces have entered into Reciprocal Billing Agreements, most of the claims processed under this system are from outside the country. This system is less sophisticated than the main system and is not linked to it.

The Auditor's review of this system identified that substantial payments were being made to institutions located in the United States for services in the areas of psychiatric care and addiction treatment. It was noted that comparable treatments were available in Ontario, and that the U.S. institutions operated on a for-profit basis and charged higher fees than Ontario institutions.





### Psychiatric Care

In the area of psychiatric care, the Auditor acknowledged that the Ministry had achieved significant reductions in recent years in the number of patients receiving out-of-country care, but observed that OHIP lacked guidelines on the continuation or termination of coverage for long-term treatment.

In response to the Committee's questions on this issue, the Ministry indicated that relocation of patients to Ontario was based on an assessment of whether it would help or at least not harm the patient, and as such had to be carried out on a case-by-case basis. It was noted that stability of environment is often important to the well-being of psychiatric patients, and that the decision to relocate must be taken with care.

The Ministry pointed out that the number of out-of-country psychiatric patients has been reduced from 60 to six since the beginning of the decade, and stated that it would only authorize out-of-country treatment in cases where it has been demonstrated that there is no suitable treatment in Ontario for that patient.

### Addiction Treatment

The Auditor noted that in 1986, \$3.3 million had been paid for out-of-province treatment of alcoholism and drug addiction, and observed that OHIP policy "does not discourage nor does it limit the seeking of treatment abroad" despite the fact that these treatments are usually elective and pre-planned.

In response to the Committee's questions on these findings, the Ministry attributed the use of out-of-province treatment to two factors:

- limited availability of such services in Ontario, which the Ministry felt was being overcome during the past two or three years; and
- the preference of some patients for anonymity in treatment.



The Committee questioned whether there were any controls or measures in place to ensure that patients were required to search for suitable treatment in Ontario before receiving approval for out-of-province treatment. The Ministry indicated that there were no direct controls, but that there was an "indirect economic control", in that the OHIP only paid 75% of the cost of treatment in the United States. The fact that the patient paid the remaining 25% was considered to be an "economic deterrent". It was noted that the costs for institutional treatment are similar in the two jurisdictions, i.e. the full cost of treatment in Ontario is similar to 75% of the cost in the U.S. Hence the use of out-of-province facilities was not considered to place a greater burden on the taxpayer.

Nonetheless, the Deputy Minister expressed a commitment to addiction treatment within the patient's community, in that it is both more effective for the patient in terms of follow-through and less costly for the province. He felt that the expansion of facilities currently in progress and the Ministry's development of a more positive, less stigmatized image for addiction treatment would lead to reduced out-of-country treatments.

#### Discrepancies in Patient Data

The Auditor tested the validity of data on the out-of-province claims processing system and identified a number of instances of inaccurate data, including hospital admission of supposedly deceased people, and treatments of patients with diagnoses specific to the opposite sex. In its response to the Auditor, the Ministry attributed these to "data entry errors", and indicated that it was undertaking a review of its data entry function and its data verification programs. The question remained why the system had lacked the verification checks to identify and highlight obvious errors concerning critical data.

#### **Proposed New OHIP Computer System**

The Ministry informed the Committee that a proposal was being prepared for a new OHIP computer system, to be submitted for Management Board review in April 1988. In response to the Committee's questions, the following points were made regarding the new system:





- The new system is based on a single, unique, lifelong number for each individual in the province, replacing the present system of family numbers which change with the changing family structures and employment situations of individuals.
- It will cost \$45 million in system development costs and \$5 million in time by current Ministry staff. Existing hardware will be used.
- If the proposal receives approval in April 1988, 24 – 30 months will be required to develop the new system and re-register the subscriber population, i.e. until late 1990.
- In addition to its greater capacity, the new system will have benefits in terms of greater patient confidentiality and capacity to conduct epidemiological research into patterns of disease and illness.
- The existing duplicative and inaccurate historical information on patient claims in the Claims Reference File noted by the Auditor will not be incorporated into the new system. The new system will have only "clean" data, and will be cross-referenced to the existing system, which in time will become obsolete.

## Recommendations

### Deficiencies in Existing OHIP System

The Committee notes with concern the potential for serious administrative problems in the near future due to the limited capacity of the OHIP computer system, as well as its current inefficiencies, confidentiality problems, and lack of research capability.

- #1. The Committee recommends that the Ministry develop and implement a new computer system to overcome these problems, and to address the specific concerns reviewed by the Committee at its hearing.

Pending establishment of the new system, the Committee recommends that the Ministry take all feasible measures with regard to the existing system to:

- delete obsolete data from the Claims Reference File;
- review its claim forms to reduce opportunities for variations in entry of patient information, so as to reduce duplication of records; and
- make more effort to reconcile its physician data on the Health Resources Register with the data held by the College of Physicians and Surgeons.





### Out-of-Province Claims for Psychiatric Care

The Committee commends the Ministry for its success in reducing the number of patients receiving out-of-province psychiatric care during the past decade. The Committee recognizes that it is important that health care be accessible in other jurisdictions, and notes that Ontario provides treatment to out-of-province patients in cases of need.

- #2. The Committee recommends, nonetheless, that the Ministry continue its efforts to ensure that Ontario patients receive suitable treatment within Ontario.

### Out-of-Province Claims for Addiction Treatment

The Committee notes the Ministry's efforts to expand the availability of treatment for alcohol and substance abuse within Ontario, and to reduce the stigma associated with such programs.

- #3. The Committee recommends that the Ministry monitor the reduction in out-of-province treatment during the next two years to determine the impact of greater availability of in-province treatment, and requests that these findings be reviewed by the Provincial Auditor.

### Inaccurate Data, Out-of-Province Claims

- #4. The Committee recommends that the out-of-province claims system be enhanced to ensure that it has the capability to identify basic inconsistencies in data such as those noted by the Provincial Auditor.



The Provincial Auditor's Report, Section 4.9  
Problems in Mental Health Care  
Ministry of Health

On February 17 and 18, 1988, the Public Accounts Committee investigated the Provincial Auditor's findings on the adequacy of arrangements to provide and manage mental health care in the province. The Auditor's investigation had identified some major concerns:

- deficiencies in the staffing, facilities, and utilization of the ten provincial psychiatric hospitals;
- serious inadequacies in the availability and coordination of housing alternatives and community support programs for ex-psychiatric patients, contributing to a "revolving door syndrome";
- absence of a comprehensive management information system needed to collect and analyze data either for management of existing facilities or planning of new ones.

The Committee reviewed these areas with officials of the Ministry of Health, including the Deputy Minister, the Assistant Deputy Minister responsible for mental health care, the Director of mental health operations, the Director of community mental health, and the Director of mental health planning. The Ministry responded to the Committee's questions about the problems identified by the Auditor, and outlined activities and plans to upgrade mental health care.

#### **Staffing Problems in Provincial Psychiatric Hospitals**

The Auditor had identified a number of problems in the staffing area:

- serious shortages of professional staff, linked to low pay, stressful conditions, and poor morale;
- growing demands on limited staff resources due to the use of staff-intensive patient restraint methods for patients in crisis states;
- inconsistencies and unsystematic allocation of nursing resources, despite the fact that these accounted for half of all hospital expenditures;
- inefficiencies in housekeeping and dietary services.





The Committee noted the Auditor's statement that, "under these conditions, which have adversely affected patient care, the level of dedication displayed by staff was remarkable." The Committee commended this dedication, and questioned the Ministry in detail about the complex problems of stressful, difficult working conditions, poor pay, and professional challenges faced by the staff of psychiatric hospitals, and the problems in recruitment and retention being experienced by these facilities. A number of these concerns were discussed at the hearings. Others were addressed in correspondence subsequently received from the Ministry.

### Staff Shortages

In response to the Committee's questions, the Ministry outlined some recent initiatives intended to address the shortage of psychiatrists in the psychiatric hospitals, particularly in remote regions:

- enhanced professional enrichment programs, and affiliations between the hospitals and health science centres at the universities, so as to improve the professional image of working in the hospitals;
- discussions with the medical profession on revisions to the licensure system to facilitate staffing of hard-to-fill positions;
- efforts to recruit people from remote regions into medical schools and professional schools;
- a series of working groups, symposiums, and meetings during the past two years on recruitment and retention problems, which will lead to a task force to look at ways to recruit.

The Committee asked about compensation as a factor, noting that staff of psychiatric hospitals differed from other medical personnel in that they lacked an independent formal arbitration process, their pay was set by the Minister, and rates of pay in psychiatric facilities were far lower than for similar personnel in other health facilities. In response to a question by the Committee, the Auditor indicated that the current negotiation system, as described at the meeting, could be deemed to be contributing to the low levels of compensation.

The Ministry acknowledged that the compensation system had been the subject of controversy and a job action in the past, and stated that since the





issue had not been resolved, there had been no change in compensation to physicians for the past two and a half years. The Ministry noted that a report on this issue had recently been completed, setting out options for the compensation system, and that there would be "some changes or improvement".

The Ministry felt that although pay was a factor, other issues also played a major role in the staff recruitment and retention issue. Upon Committee questioning, the Ministry indicated that there was a morale problem, linked to:

- the increasingly difficult patient mix remaining in facilities after deinstitutionalization;
- the poor image of professional treatment in the facilities;
- caregiver frustrations arising from poor patient progress and high readmission rates;
- concern among psychiatrists at the impact of recent changes to the Mental Health Act in restricting their ability to prescribe treatments.

The Ministry felt that its coordination initiatives, outlined earlier, were helping to reduce morale problems.

In subsequent correspondence, the Ministry outlined further initiatives:

- special pay awards for high vacancy areas such as nursing;
- special relocation grants to assist recruitment to underserved areas;
- joint labour-management forums to deal with stressful conditions, and the establishment of training programs for all staff in management of disturbed behaviour.

#### Costly Approaches to Patient Restraint

The Auditor had noted that the use of highly labour-intensive methods of patient restraint for severely disturbed patients was increasing and that this diverted already scarce nursing resources away from other important duties. The Auditor cited the use of an innovative approach at Whitby, the self-contained Intensive Observation and Treatment Unit, which greatly reduced the staff resources required to monitor patients under restraint.



Subsequent to the hearings, the Ministry indicated by correspondence that the Whitby innovation is considered promising and other hospitals are being encouraged to adopt it. However, renovation is dependent on the availability of funds.

#### Inconsistent and Unsystematic Allocation of Nursing Staff

Noting that over half of all psychiatric hospital expenditures were related to nursing, the Auditor pointed out in his Report that only one hospital had a patient classification system for staff allocation tailored to its needs, five others used systems adapted from elsewhere, and four hospitals had none at all. The Auditor recommended that the Ministry implement clearly defined and consistent patient classification systems and staffing standards for all hospitals.

The Ministry indicated in subsequent correspondence that the customized system at St. Thomas is being reviewed with a view to modifying it to fit the various needs of other hospitals.

#### Weak Management of Housekeeping and Dietary Services

The Auditor's Report noted that various studies by the Ministry had identified serious deficiencies and the potential for staffing economies and better service in the housekeeping and dietary area. The use of contract management had been seen as one means to achieve these improvements; however, the ministry had not implemented these recommendations.

The Ministry indicated in a subsequent letter that the Mental Health Branch is "preparing a paper to address contract management services (i.e. housekeeping and dietary) for its ten facilities."

#### **Substandard Physical Facilities**

The Auditor noted that the condition of many of the psychiatric hospitals was "well below the standard expected in general hospitals", that many of the buildings were old, and that some were deteriorating. Problems were identified with crowding, patient privacy, washroom facilities, temperature control, and ventilation. Although some renovations were being made to





improve patient privacy, improvement of heating and ventilation would likely have to await rebuilding.

The Committee expressed concern about these substandard physical conditions, and questioned the Ministry about its plans to improve them. In response, the Ministry discussed in some detail the redevelopment and rebuilding project being undertaken at Whitby Hospital, at a projected cost of some \$65 million. Noting that this project has been in the planning stages since 1977, the Committee expressed concern about the delays in the project and their cost implications. The Ministry indicated that the project was now moving ahead, that "shovels would be in the ground" within four or five years, and that redevelopment would be completed in about eight years. This project was intended to serve as a model for development of other psychiatric facilities. The Ministry felt that past delays had not had significant cost implications in terms of redundant planning effort.

The Ministry indicated that this is the most advanced of the redevelopment projects, but that redevelopment is also being considered for North Bay. In subsequent correspondence, the Ministry noted that:

- it is working with federal and provincial correctional authorities to assess the redevelopment needs of Oak Ridge;
- each facility meets monthly with the Ministry of Government Services to identify, prioritize, and plan renovations; and
- each hospital has established a committee to review privacy and decor issues.

### **Inappropriate Utilization of Facilities**

A number of concerns were identified in the Auditor's report and in the course of the hearings about the appropriateness of the patient mix in the facilities:

- 25% of patients could have been discharged if adequate housing and support facilities were available in the community;
- great difficulty was experienced in relocating psychogeriatric patients to more suitable extended care facilities, due to the shortage of facilities and the reluctance of operators to accept such patients;



- delays had been experienced in establishing innovative alternatives to treatment in the psychiatric hospitals, such as the crisis intervention centre proposed for Toronto by Dr. Reva Gerstein in 1982;
- delays in the development of a definition of competency had contributed to deficiencies in intake and in discharge of patients from facilities.

During discussion of these concerns, the Ministry made the following points:

- With respect to the crisis intervention centre recommended by Dr. Gerstein, there had been considerable controversy within the professional mental health care community about the appropriate approach. It was indicated that Dr. Gerstein was currently fleshing out her original recommendations, and that positive action was expected to be taken on them.
- An informal group of experts from the medical community is advising the Minister in developing a definition of competency. It was noted that this definition had to await completion of two other recent reports, on advocacy and on substitute decision-making.

The Committee commended the progress, albeit belated, on the crisis intervention initiative. However, the Committee expressed concern about the delay in establishing a definition of competency, noting the delay's adverse impacts on utilization of the provincial psychiatric hospital system, as well as its severe personal impacts on patients and their families. The Committee was pleased to note that subsequently, in April 1988, a formal, broadly-based commission was established to develop a definition of competency.

### **Inadequate Information for Planning and Coordination**

The Committee questioned the Ministry about the Auditor's findings of deficiencies in the collection and use of management information:

- unreliable statistics on outpatient services due to inconsistent definition and monitoring of these services;
- absence of comparisons among the various hospitals, even with regard to cost comparisons of basic activities;
- lack of use of available information on causes of patient readmission and referral sources;
- misleading statistics on such indicators as length of patient stays;
- absence of any system to gather and analyze information on need for or utilization of community-based services.





The Ministry noted that these deficiencies were being addressed in some measure through the development of a management information system within each of the hospitals. However, upon Committee questioning, it became apparent that these systems are not linked to each other, and as such only integrate patient data within each hospital. They lack the capability to track patient movement even within the psychiatric hospital system, let alone outside these institutions. The Ministry explained that patient movement in the community was very difficult to track owing to high patient mobility and the unpredictability of patient utilization of community services. However, the Ministry acknowledged that such information was essential to the development of an integrated system of community care, and stated that it was working to overcome these challenges.

### **Inadequacies in Community Housing and Program Supports**

The Committee devoted substantial time to investigating the serious deficiencies in community housing and program support identified by the Auditor:

- many ex-psychiatric patients lived in boarding homes, which were unsuitable for their needs in a number of ways:
  - conditions were poor with respect to food, sanitation, and crowding;
  - there were no rehabilitation programs;
  - boarders' funds were handled by the landlord;
  - regulation and licensing of these homes was a municipal responsibility and had severe shortcomings and inconsistencies;
  - accessibility and choice was very limited, especially in areas such as Toronto experiencing low vacancies and rising costs.
- Homes for special care licensed by the Ministry of Health, although providing a cleaner, safer environment than boarding homes, were not required to provide rehabilitation therapy under their licenses. As well, one-tenth of the homes were in violation of their license requirements at the time of the audit, mostly under fire safety regulations, but were allowed to continue operating.
- Supportive housing units had increased substantially in the past five years, but still fell far short of demand.
- Community-based programs and services have increased but are still insufficient to meet demand.



### Problems with Boarding Homes

The Ministry noted some initiatives to improve the quality of boarding houses:

- a sum of \$1.5 million had been allocated in March of 1986 to upgrade boarding homes for ex-psychiatric residents (the Boarding House Contract Program);
- a joint initiative with the Ministry of Community and Social Services had been established in October 1986 to provide a per diem payment to boarding houses in Toronto which meet special guidelines on living conditions and care of some 100 residents per year (Metro Habitat Program).

Questioning by the Committee suggested that there some serious problems with boarding homes which have not as yet been resolved:

- The Habitat program was endorsed but was seen as insufficient to meet the need. Moreover, inconsistencies were noted between the funding provided under the Habitat program (\$31 per diem for a prescribed standard of care and physical conditions, in addition to the room and board paid by the boarder) and the \$25 per diem paid by the Ministry to the operators of special care homes. No rationale was identified for this variation.
- The diffusion of responsibility among ministries for the various residents of boarding homes and among municipalities for the physical condition of the homes was considered to contribute to the existence and perpetuation of problems ranging from inadequate living conditions at best to resident exploitation and severe physical abuse. Several such instances were discussed.

The Committee praised the work of the Ministry in coordinating some ad hoc efforts by a number of agencies to overcome severe problems at some particular boarding homes. However, the Committee felt that this multifaceted problem called for a joint approach by all the involved parties, commencing with an inquiry with input from the ministries responsible for mental health patients, the disabled, the developmentally handicapped, the elderly, and other vulnerable adults, and the ministries responsible for housing and for municipal affairs.

In response, the Deputy Minister stated, "The ministry would be most pleased to participate [in an interministerial inquiry] and it already participates in a number of interministerial task forces that deal with that. If there were to be any further process put in place, all the information available to the Ministry





would be brought to the table. . . . Wherever the Ministry's expertise can be brought to bear, we will bring it to bear."

### Inadequacies in Homes for Special Care

The Committee's discussion of the problems associated with special care homes focussed on two major issues:

- the seriousness and the extent of violations of licensing requirements in one-tenth of the homes as noted by the Auditor; and
- the lack of programs for the rehabilitation of residents of these homes.

In response to Committee questioning, the Ministry stated that the violations of licensing requirements in one-tenth of the homes as noted by the Auditor were of a minor nature, usually related to fire safety laws, and did not warrant revoking the license. It was noted that the legislation states that unless the license is revoked, it is deemed to continue. As such, the non-renewal of a license is not in itself sufficient to terminate the operations of the home. The Ministry noted that all the homes were in compliance with requirements by year-end, although in some cases this took as long as ten months.

The Ministry disagreed with the Auditor's conclusion that the homes were allowed to continue operating due to the lack of housing alternatives for the residents, although the Deputy Minister had earlier stated that he "recognized the shortage of available housing is a factor". The Ministry indicated that the homes were permitted to continue operating since the residents had usually lived there a long time and did in fact view it as their home, and stated that the homes would not have been allowed to continue operating if the violations had been of a serious nature.

The Committee also questioned the Ministry about its initiatives to provide rehabilitation opportunities for the residents of special care homes. The Ministry indicated that community programs were being developed for the residents, and that funding for these programs was currently being requested. It was anticipated that the residents would travel from their homes to participate in these programs. No significant modifications to the operations of special care homes appeared to be contemplated.



### Insufficient Supportive Housing

In response to the Committee's questions, the Ministry described its role in a housing initiative, Project 3000, announced in October 1986 and directed toward special needs groups. In the first year of the program, the Ministry of Health was awarded 260 housing units for ex-psychiatric patients, out of a total of 6,700 units for all groups. Subsequently, a further 1,000 units were announced for all groups for 1988, of which the Ministry of Health was awarded 360 for ex-psychiatric patients. The Ministry anticipated that a further 1,000 units would be announced for 1989, and that it would be awarded about one-third of those for ex-psychiatric patients. Later in the hearing, the Ministry estimated the total number of people with special needs requiring supportive housing at 20,000, of which about 7,000 were ex-psychiatric patients.

The Committee questioned whether there was scope for the Ministry to intensify its advocacy on behalf of ex-psychiatric patients, given the fact that they accounted for one-third of housing need. The Ministry indicated that initially everyone had been new to the process and that other ministries had identified needs in greater depth. (Subsequent correspondence from the Ministry indicated that the Community Mental Health Branch had been established in October 1986 and a director had been appointed in April 1987.) The Ministry felt that they were now integrated into the interministerial process for allocation of supportive housing units.

The Ministry also noted that its pilot project in Whitby included the development of supportive housing units associated with a "clubhouse" model of programs and services, with a view to providing an integrated and comprehensive approach to community mental health care.

### Insufficient Availability and Integration of Community Programs

The Ministry indicated that it placed a very high priority on developing an integrated spectrum of services so that patients could move from one type and level of care to another in an orderly way. The Ministry acknowledged that gaps existed in this spectrum at present, and that the transition from institutional care to the community or to the jurisdiction of other ministries was often difficult for the client. However, the Ministry expressed





commitment to reducing these problems through an emphasis on expanded community programs and through better coordination with other ministries and community groups. It devoted some time to describing its recent initiatives in this area, including:

- the establishment of a Community Mental Health Branch in October 1986;
- the announced doubling of funding during the next three years, from \$65 million to \$130 million;
- the implementation of pilot projects involving integrated models of community housing and programs, such as the Whitby project;
- the development of integrated community mental health models to improve rural services, such as the Grey-Bruce corporation which links a range of services under one umbrella;
- support to the Canadian Mental Health Association's public information initiative to reduce the stigma of mental illness, contributing to greater community acceptance of community-based program;
- better relationships with the Ministry of Community and Social Services through greater "organizational symmetry" arising from the Ministry of Health's move towards a more programmatic, proactive approach;
- extensive interministerial coordination through a variety of mechanisms; and
- a planned reorganization of the Mental Health area to more effectively provide integrated services, which is currently undergoing extensive consultation.

In response to the Committee's questions on evaluation of community services, the Ministry indicated that all community services and programs that are newly funded go through a two-year evaluation process. During the two years, objectives are set and refined for the program, and at the end of the two years, the program is evaluated by staff of the Community Mental Health Services Branch. The Ministry felt that there was scope to involve local planning bodies in the process to a greater extent and to establish an ongoing evaluation process.

The Committee also questioned the Ministry about regional disparities in the availability and scope of services, in larger urban areas as well as rural and remote areas. The Ministry noted that available information on funding was narrow and unreliable, but that it appears that disparities did exist. The Ministry stated that it was not possible to identify the comparative availability of community programs, due to lack of information.



## Recommendations

### Staffing, Operations, and Facilities of Psychiatric Hospitals

The Committee observes with concern the problems of staffing, facilities, and operations of the provincial psychiatric hospital system, as identified by the Provincial Auditor and investigated by the Committee. The Committee notes the various initiatives and commitments made by the Ministry to address these problems, including:

- modifications to the compensation system in light of dissatisfaction with the present system among psychiatric staff;
- special pay awards and relocation awards for occupations and regions where recruitment and retention are particularly difficult;
- the establishment of training programs for all staff in management of disturbed behaviour;
- the development of Intensive Observation and Treatment Units in the hospitals, subject to the availability of funds;
- the adaptation of the St. Thomas patient classification system to the other psychiatric hospitals, to improve staff allocation;
- the preparation of a paper to address contract management of housekeeping and dietary services at the ten hospitals;
- a co-ordination process between each hospital and the Ministry of Government Services to identify, prioritize and plan renovation projects; and
- the establishment of a committee in each hospital to review privacy and decor issues.

Some time will be required for these initiatives to reach their full impact.

#5. The Committee plans to conduct follow-up reviews during the winter of 1988-89, including a visit to some of the facilities in question, to assess the contribution which the Ministry's efforts have made to addressing the deficiencies identified in the Committee's investigations. The Committee requests the assistance of the Provincial Auditor in conducting this assessment.





### Management Information System

The Committee believes that a reliable and comprehensive client-based management information system is essential to the establishment and operation of an effective and integrated mental health care system.

- #6. The Committee recommends that the existing management information system within the hospitals be upgraded to allow integration of information within the hospital system, and that the Ministry place a high priority on completing its development of a management information system for its community-based programs and services. The Committee plans to review progress in this area as part of its follow-up work in the fall of 1988.

### Homes for Special Care

The Committee commends the Ministry for its initiatives to develop programming for residents of special care homes, and recommends that the Ministry continue to accord this area a high priority. However, with respect to the physical condition of the homes, the Committee notes the fact that one-tenth of special care homes experienced delays in renewal of their licenses in 1986 while addressing violations to their licensing requirements.

- #7. The Committee recommends that the Ministry review its licensing requirements to ascertain the cause of these delays, to determine whether its licensing requirements are appropriate, and to identify options to reduce the level of infractions in future. The Committee expects to review the findings of this study early in 1989, as part of its follow-up review.

### Community Programs, Services, and Housing

The Committee commends recent initiatives to expand the supply of supportive housing for ex-psychiatric patients and to develop comprehensive approaches to community housing, and recommends that they continue and expand as feasible. However, the Committee observes with concern the extent of need among ex-psychiatric patients as yet unmet, given that less



than 1,000 have been placed in supportive housing to date and given the Ministry's statement that ex-psychiatric patients account for one-third of unmet supportive housing need — 7,000 units out of 20,000.

The Committee also commends the Ministry's efforts to expand the scope and scale of community mental health programs and services, and to integrate the spectrum of mental health care and services.

**#8. The Committee feels that it is essential that the Ministry have adequate evaluation capabilities to ensure that these initiatives attain maximum impact in meeting mental health care needs.**

The Committee concludes that the complex and multijurisdictional problems of community mental health programs, services, and housing identified by the Auditor merit further legislative review and investigation. The Committee particularly notes its concern about the diffusion of responsibility for the clientele and conditions of boarding and rooming houses, and the inadequate quality of life for the residents in many such houses.

**#9. The Committee recommends that the Social Development Committee of the Legislative Assembly consider undertaking a comprehensive study of the housing and other community and mental health needs of ex-psychiatric patients, the adequacy of current and planned housing and services to meet those needs, and options to overcome any identified deficiencies.**

The Committee notes the comprehensive investigation of these matters which the Auditor has conducted, and believes that the Auditor's research and findings would be of benefit to any studies which the Social Development Committee might choose to undertake. The Committee requests that the Auditor make available to the Social Development Committee any information arising from his audit which may be relevant to their studies.





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February 1988

Tuesday, 16 February

2:00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor.

Re: Section 4.8

Weak Procedures and Controls,  
Health Insurance Program.

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

Ron LeNeveu  
Assistant Deputy Minister  
Administration, Finance and  
Health Insurance

Malcolm Gibson  
General Manager  
OHIP

John Dorland  
Senior Manager  
Planning and Development

Dr. Eric Murray  
Medical Consultant

Bob Copeland  
Manager  
Quality Assessment/Quality  
Control





Wednesday, 17 February

10:00 a.m.  
and  
2.00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor.

Re: Section 4.9

Problems in Mental Health Care

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

David Corder  
Assistant Deputy Minister  
Mental Health

Theresa Firestone  
Director  
Mental Health Operations Branch

Debi Mauro  
Director  
Community Mental Health Branch

Yale Drazin  
Director  
Mental Health Planning Branch



Thursday, 18 February

10:00 a.m.  
and  
2:00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor

Re: Section 4.9

## Problems in Mental Health Care

From the Ministry of Health:

Dr. Martin Barkin  
Deputy Minister

David Corder  
Assistant Deputy Minister  
Mental Health

Theresa Firestone  
Director  
Mental Health Operations Branch

Debi Mauro  
Director  
Community Mental Health Branch

Yale Drazin  
Director  
Mental Health Planning Branch









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# Standing Committee on Public Accounts



## Second Interim Report 1988

1st Session, 34th Parliament  
37 Elizabeth II







LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

Queen's Park  
June 1988

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour  
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read 'Ed Philip'.

Ed Philip, M.P.P.,  
Chairman.



**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**MEMBERSHIP AS OF MONDAY, 23 NOVEMBER 1987**

**ED PHILIP**  
Chairman

**BILL BALLINGER**

**STEVEN OFFER**

**DOUG CARROTHERS**

**ALAN W. POPE**

**MIKE DIETSCH**

**GILLES POULIOT**

**JOAN FAWCETT**

**ROBERT W. RUNCIMAN**

**SHELLEY MARTEL**

**DAVID W. SMITH**

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**Douglas Arnott**  
Clerk of the Committee

**Wendy MacDonald**  
Research Officer





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## Introduction

On February 22, 1988, the Public Accounts Committee reviewed the Provincial Auditor's findings of weaknesses in pollution control procedures and administrative practices at the Ministry of the Environment. The Auditor's primary objective in reviewing the Ministry's Environmental Control Program had been to assess whether the Ministry had adequate procedures to identify and enforce compliance to requirements by polluters. The Auditor had found that the Ministry:

- had chosen not to verify the monitoring data submitted under the Countdown Acid Rain program by Ontario's four largest contributors of acid rain emissions;
- was deficient with respect to follow-up of complaints and did too few self-initiated inspections;
- had been inactive on a number of companies discharging contaminants directly into waters at levels beyond Ministry guidelines (the Auditor noted that this problem would be reduced once the Ministry's proposed Municipal-Industrial Strategy for Abatement, or MISA, was implemented);
- in several instances, had failed to comply with the tendering requirements set out in the Ontario Manual of Administration; and
- had not utilized its Ministry vehicles economically, reimbursing staff for use of personal vehicles instead — a criticism which the Auditor had previously made in his 1984 Report.

The Committee reviewed these findings with officials of the Ministry of the Environment, including the Deputy Minister, the Associate Deputy Minister responsible for Intergovernmental Relations and Strategic Projects, the Assistant Deputy Minister responsible for Environmental Services, and the Executive Director of the Corporate Resources Division. The Ministry offered explanations for the Auditor's findings, outlined initiatives which had been taken to address some of his concerns, and made commitments regarding the other findings.





## Non-Verification of Data Submitted by Acid Rain Contributors

In December 1985, the government announced a major initiative on acid rain abatement, "Countdown Acid Rain". Under this policy, regulations were established under the Environmental Protection Act requiring Ontario's four largest contributors to acid rain to reduce their emissions of sulphur dioxide by over half -- from the 1980 level of 2,194 kilotonnes to a level of 885 kilotonnes by 1994.

Subsequently, the Select Committee on the Environment held hearings on Countdown Acid Rain, tabling its report in the Legislature on May 11, 1987. The Committee's major recommendation called for the termination of Ontario Hydro's "banking provisions", whereby pollution allowances not used in one year could be transferred to later years. This recommendation was accepted by the Government. It was noted that the Committee had also recommended that the four companies be required to submit reports beginning at the end of 1987. The Ministry was not aware of this recommendation, and indicated that the regulation required the first reports to be submitted at the end of 1988.

The Auditor reviewed the control measures placed on the four companies and found that the Ministry was not performing any independent verification of the monitoring data being submitted by the companies. Moreover, one of the companies had reported a number of exceedences of its limit in the course of a year, but had not been investigated. The Auditor felt that the Ministry should periodically verify the data being submitted under Countdown Acid Rain.

This finding generated extensive attention and concern among the public and in the Legislature. The Ministry responded through several channels, including its written response to the Auditor, answers by the Minister to questions in the Legislature, and more detailed testimony to the Committee. The Ministry offered an explanation for its decision not to monitor the data, and committed itself to an independent verification process, which it had implemented upon learning of the Auditor's concerns.

The Ministry informed the Committee that the initial monitoring approach had been based on a system whereby the Ministry monitored air quality around



the companies' facilities, and the companies measured and reported the sulphur content in the materials being fed into their processes. These readings were then used to estimate the amount of acid gas being emitted, taking into account various production processes and rates. The Ministry stated that it had used this system, called the mass balancing system, for ten years and that tests had demonstrated its estimates to be reliable when measured against actual air quality readings. In response to Committee questions, the Ministry outlined its air monitoring activities, which it felt compared favorably to other jurisdictions, and described the characteristics and processes at each of the plants.

The Ministry explained that it had chosen not to carry out independent monitoring of company data on process inputs at the onset of Countdown Acid Rain for several reasons:

- the perceived effectiveness of the mass balancing system;
- the existence of an air quality monitoring system which allowed the Ministry to assess the validity of company data based on air quality impacts of emissions; and
- the cost and complexity of an independent monitoring system.

The Ministry noted that it had never informed the companies of this decision. However, the Ministry indicated, once it had learned of the Auditor's intention to report this finding, it recognized that an independent monitoring system would be required. Consequently, beginning in November 1987 and planned every two months, the Ministry is taking samples of the coal and materials going into the plants and assessing them independently. The Ministry stated that these tests have shown that previous company numbers were correct.

The Ministry also indicated that a new monitoring system would likely be required by 1994, since the new technology needed by the companies to achieve the Countdown Acid Rain targets would likely render current monitoring methods obsolete. The Ministry stated that it has retained a consultant to advise it on what kind of independent verification systems could be developed for that time.





## Deficiencies in Follow-Up Of Complaints and in Self-Initiated Inspections

The Auditor reviewed the Ministry's operations in two basic areas of environmental control — follow-up of complaints from the public and self-initiated inspections — and found deficiencies in both.

### Inadequate Follow-Up of Complaints

The Committee asked the Ministry to explain the Auditor's findings regarding inadequate follow-up of complaints. The Auditor had reviewed a sample of the 12,000 complaints which the Ministry received in 1986, and found that one-quarter of the complaints reviewed lacked adequate evidence of follow-up by the Ministry. The Auditor found that four of the six districts investigated had deficient procedures, in that they had neither control logs of complaints nor reports on the status of complaints. The Auditor recommended that:

- all districts maintain a summary record of all complaints received and how they are being addressed;
- district supervisory staff review the action taken by the officers to ensure that the complaints are properly followed up.

In its response to the Auditor and in subsequent testimony to the Committee's questions, the Ministry outlined initiatives to address the Auditor's recommendations:

- development of a revised Occurrence Report Form which combines three existing forms into a single report; and
- development of a computerized record system to maintain information files on all complaints, and to document any follow-up action, thus facilitating management review.

In its testimony to the Committee, the Ministry repeated these commitments, noting that its new automated system was expected to be in use by the end of the summer. The Ministry acknowledged that "there are likely situations where we either did not respond or, in the view of the complainant, responded inadequately", and, in explanation, noted that several factors had led to sharp increases in its workload in recent years:



- the increase in technological knowledge, such that pollutants can be identified in far more minute quantities and levels today than was the case several years ago;
- the corresponding growth in public awareness and concern about pollution, leading to steep increases in complaints — expected to total 19,000 in 1988, up from 12,000 in 1986;
- the complex process required to deal with complaints, involving several branches of the Ministry, sometimes for several rounds;
- the current and planned expansion in the scope and scale of Ministry responsibilities in such areas as water pollution control (discussed later in this report), air pollution control, solid waste treatment, environmental assessment, and public consultation activities.

The Ministry stated, "It has been a period of transition . . . Existing systems must be integrated, staff retrained, and the industries of the province educated as to our new expectations". It was acknowledged that the Ministry had received a significant increase in its budget and staff resources in the recent past, and that further increases are planned. Nonetheless, the Ministry indicated, in order to meet the growing pressures and new initiatives, it had been necessary to streamline programs and reallocate resources. In so doing, the Ministry indicated that it placed the highest priority on situations posing a risk to human health, and the next highest priority on situations posing a risk to the environment.

The Ministry also noted that its enforcement staff had increased significantly, and that compared to 1985–86, it was conducting ten times as many enforcement investigations and laying three times as many charges. It was felt that the doubling of enforcement staff which had been announced in the throne speech would result in "further dramatic increases" in these areas.

#### Insufficient Self-Initiated Inspections

The Committee questioned the Ministry about the Auditor's findings regarding self-initiated inspections. The Auditor had found that while all six districts in the north routinely did self-initiated inspections, eight of the sixteen districts in the south did none at all and another five did very few. The Auditor felt that the lack of self-initiated inspections lessened the Ministry's effectiveness in identifying pollution sources, since it then needed to rely on the public to identify polluters.





In its response to the Auditor, the Ministry stated, "The conclusions and findings in the report are noted and we acknowledge that improvements can be made in identifying sources of pollution and enforcing environmental laws". The Ministry indicated that its regional managers would strive to increase the level of self-initiated visits in some districts.

Upon being questioned by the Committee on this matter, the Ministry indicated that due to the pressures of increasing workload described above, "the regularity of the inspection cycle has suffered in having to deal with the complaints. . . the frequency [of inspection] in some cases has had to be reduced where we have determined that there is less risk". In response to Committee questions, the Ministry described its waste site and landfill investigation and inspection program.

### **Improved Enforcement Required, Water Pollution**

The Auditor found that the Ministry had been generally inactive on a number of companies discharging contaminants directly into lakes and rivers beyond limits set out by Ministry guidelines. Some 300 companies discharge wastes directly into Ontario waters, and a further number estimated at 12,000 by the Ministry discharge wastes into Ontario sewers. Each year, the Ministry prepares a report on the 300 direct dischargers, based largely on information submitted voluntarily by the companies. The Auditor noted that the Ministry's 1985 Discharges Report had revealed some disturbing facts about the Ministry's lack of information, the extent to which firms had exceeded Ministry guidelines, the limited Ministry controls, and the lack of enforcement of those controls which did exist. An update prepared for the Committee on the 1986 Discharges Report showed no improvement from the Auditor's findings. In 1986:

- the Ministry had information on only 154 of the 300 companies;
- 101 of the 154 exceeded Ministry guidelines on specific pollutants in at least one month of the year; and
- 67 of the 101 exceeded the annual allowable limit for specific pollutants.

The Auditor had noted that in 1985, 147 companies had reported to the Ministry, 97 had been out of compliance with guidelines in at least one month



of the year, and 58 had been out of compliance on an annual basis. A sample by the Auditor of 50 companies from among the 97 showed that 34 of the 50 were not subject to any Ministry controls, and of the 16 controlled by the Ministry, 13 had exceeded their limits but were not considered for prosecution. The Auditor had also found that only 39 of the 147 companies reported toxicity results to the Ministry, and of those, over three-quarters failed the test.

The Committee questioned the Ministry about these findings. In response, the Ministry discussed the approach taken in its Discharges Report. Noting that the report was a requirement of the Great Lakes Agreement under the International Joint Commission, the Ministry indicated that a decision had been made to expand the scope of the report each year to include a range of contaminants broader than that required by the agreement and to increase the number of industries included. The Ministry also noted that the report was a "very strict test", in that if the dischargers did not score 100% by meeting all the parameters every month, they failed.

The Ministry felt that the report was a valuable means to increase public awareness of the issue, and that it was proving effective in encouraging companies to voluntarily clean up their discharges. It was noted that the Ministry's current enforcement instruments were not adequate to require companies to report their discharges, let alone allow control of these discharges, in cases where the industry is not operating under a Control Order or a Certificate of Approval. The Ministry discussed the Municipal-Industrial Strategy for Abatement (MISA) as a solution to this problem. The Committee raised a number of questions about MISA, which are discussed further below.

### **Municipal-Industrial Strategy for Abatement (MISA)**

The Municipal-Industrial Strategy for Abatement (MISA), announced in June 1986, represents the Government's long-term approach to controlling water pollution caused by discharges from industry and from municipal sewage treatment plants. MISA's ultimate goal is to virtually eliminate toxic contaminants in industrial and municipal discharges. This goal is being pursued through a set of measures which the Ministry described to the Committee:





- establishment of a comprehensive data base on contaminant discharges across Ontario through increased monitoring;
- a shift in emphasis: The current approach regulates the level of contaminants in the receiving body of water, and as such, in theory, any amount can be discharged so long as it is sufficiently diluted. The new approach under MISA will be to control the amount of contaminants being discharged at the source through effluent limits for each discharger, taking into account total loading of the water body from all sources;
- strengthened enforcement mechanisms, through two sets of regulations, one set placing monitoring and reporting requirements on dischargers and the other set placing effluent limits on dischargers.

The Ministry noted that implementation of these strengthened enforcement regulations is very complex. The first area being addressed is the 300-odd direct dischargers, which have been divided into eight industrial sectors. Separate requirements are being developed for each sector through a consultative process involving the industries, government, and the public. Implementation was initially to have been completed by 1991; however, it appears that the process is experiencing some delays. The draft monitoring regulations for the petroleum sector, the first to come under MISA, were to have been completed by mid-1987, but have not yet been released, nor have any regulations been released for any of the other sectors. Draft regulations for the organic chemical sector are expected to be the next to be released, later in 1988.

The Committee expressed concern about the Ministry's view that stricter enforcement of pollution controls would have to await implementation of MISA. Upon questioning, the Ministry was unable to say how many of the 101 companies which the 1986 Discharges Report had identified as exceeding Ministry guidelines had been prosecuted. The Committee suggested that the Ministry should take stronger enforcement measures pending implementation of MISA, through methods such as applying Control Orders and issuing Certificates of Approval to a greater number of companies. It was felt that lack of control technology was not an acceptable reason for failure to control discharges, and that the onus should be on companies to develop or obtain the technology to deal with the wastes they produce.

The Committee also questioned the Ministry about its plans for the approximately 12,000 industries discharging wastes into municipal sewers. Concern was expressed about MISA's initial intent to place the onus of



regulating these industries upon the municipalities, through provincial regulations governing municipal sewage discharges. In response, the Ministry indicated that the current intent was that the province would regulate the 12,000 industrial dischargers directly, and noted that efforts in this area fall into two categories: controls on the discharges into sewers, and upgrading of the sewage treatment facilities. Implementation measures to date were outlined:

- A survey of 40 sewage treatment plants across the province had been conducted to identify the influents and the effluents. Preliminary results regarding discovery of some highly toxic sludges were released in November of 1988. The full report was to be released "shortly".
- A consultant, M. M. Dillon, had been retained to assess sewer use control methods in other jurisdictions and to identify options for Ontario:
  - phase 1 of the report, outlining approaches elsewhere, had been released in November; and
  - phase 2, setting out preferred options for Ontario, was to be released in March [it was in fact issued early in March].
- The Ministry planned to prepare a discussion paper based on this report, and release it "in the spring" as a basis for public consultation. As of early June, the paper has not been released.
- Pending implementation of MISA for this sector, the Ministry has upgraded a model by-law on sewer use which it had initially developed in 1975, and is attempting to persuade municipalities to implement it.

The Committee questioned the Ministry on its capability to regulate 12,000 industries, given the shortcomings in control of the 300 industries currently being directly regulated by the Ministry. The Ministry stated that it recognized that new resources would be required, and that it was studying approaches to enforcement by various U.S. jurisdictions with similar programs. One option noted by the Ministry was a sewer use municipal permit setting out allowable discharges, whereby dischargers would pay the municipality for the use of the sewers. Revenues from permit fees could help fund the cost of municipal inspection and enforcement. The fees can be set at any level, such as the cost of policing, or the cost of suitable abatement technology.

The Committee expressed concern that this left the onus of inspection and control on the municipalities, with their varying levels of resources and





expertise. The Committee also felt that this approach posed a risk of becoming a "pay to pollute" system, and expressed support for strengthened requirements and penalties as an alternative approach. In response, the Ministry indicated that this was as yet only one of a number of policy options which would undergo public scrutiny and debate.

The Committee questioned what role aging sewage systems played in the water pollution problem. The Ministry indicated that this also played a part, as when combined storm and sanitary sewers led to overflows, and outlined its measures to assist municipalities to upgrade their sewage systems. Provincial support for such upgrading has been increased such that the province pays one-half the cost of upgrading studies, and one-third of capital costs.

#### **Lack Of Adequate Tendering For Services Acquired**

The Committee questioned the Ministry about the Auditor's finding on improper tendering practices. This echoed a finding in the Auditor's 1984 Report that the Ministry had violated tendering requirements for the operation of an experimental Ministry-owned waste recycling plant. At that time, in its response to the Auditor, the Ministry had stated that there was "no intent to circumvent the Manual of Administration" and that it had taken a "conscientious, logical approach . . . to secure the best deal for the taxpayer".

The Auditor's 1987 Report had noted that there were several further instances where the Ministry had not complied with the requirements on tendering and selecting services set out in the Ontario Manual of Administration. Upon Committee questioning, the Ministry provided further information on some of these instances.

One contract, for development of a computer model of long-range transport of air pollutants, had been awarded without tender to Environmental Research and Technology in 1982. The Ministry indicated that the project had been classified as technical consulting and as such did not require Management Board approval, but that all other normal purchasing practices should have been followed. However, the officials at that time "interpreted the advice they got as approval to proceed without formally tendering the contract". As



well, the original contract covered a period of four years, contravening the Manual of Administration which then permitted a maximum contract length of only three years. Furthermore, the Ministry had then issued four amendments to the original contract, bringing the final total to U.S. \$940,263. The contract was completed as of March 31, 1987.

A second contract, for a five-year neutralization project involving liming of lakes and study of the results, at \$125,000 a year, was let to Booth Aquatic Research Group Inc. in 1981, which subsequently subcontracted part of the work to The Environmental Applications Group Ltd. The Ministry stated that this contract was entered into in compliance with Management Board's purchasing requirements. However, subsequently, the contracted price of \$125,000 was adjusted upward each year for inflation, in violation of the policy of allowing only fixed price contracts.

When this contract was completed, the Ministry then let a contract to evaluate the impacts of its treatments on the ecosystems which the first project had undertaken. This work entailed monitoring the work which the first study had done. The two main bidders were Booth Aquatic Research, the original prime contractor, and The Environmental Applications Group, which had done part of the work under subcontract. The contract was again awarded to Booth, and was attended by some unusual features, which the Ministry stated had been approved by Management Board:

- the Ministry had failed to allow the required five business days between the issuance of the Request for Proposal and the bidders' conference; and
- the Ministry had deleted some aspects from the Booth bid as being unnecessary and had adjusted the price downward by some \$145,000, and had added some features to the Environmental Applications bid and adjusted the price upward by some \$85,000, such that Booth then became the low bidder by \$13,000.

A third contract, for \$200,000, had been signed with Environorth one week before the closing date for receipt of bids. The Ministry explained that two groups of people, the field and the purchasing section, had both been working on the project and "the right hand and the left hand did not know what the other was doing".





The Committee expressed considerable concern about these practices. In response, the Ministry indicated that in October 1986, financial management and control functions had been centralized through a reorganization. An administrative services branch had been set up to conduct a number of functions including purchasing. All purchases of consulting services must now go through this branch. Purchases under \$35,000 are reviewed and approved by a purchasing officer, purchases costing \$35,000 – \$100,000 are reviewed and approved by a supervisor, and purchases over \$100,000 must be reviewed and approved by the director of the branch. The Ministry felt that this would help to address the problems of confusion and non-compliance with tendering requirements noted by the Committee.

The Ministry also indicated that it now specifies in its Requests for Proposals that the price has to be fixed. The Ministry further acknowledged, "the Ministry is going to have to document [its selection process] in an improved way and not make heroic assumptions that [only a few companies have the capabilities required]. . . the evaluation system and the way we call for proposals is going to have to ensure that there are indeed comparable bids coming in, that we are not playing these games [of adjusting bid components and costs] to ensure that we, after the fact, have comparable bids. The Management Board directives and guidelines have been adjusted since that time to ensure that those principles are applied".

The Minister also noted that Ministry staff involved with the purchasing of services have been formally reminded by the Deputy Minister that they must adhere to the above Directives and Guidelines. The Deputy Minister noted that it has been made clear to Ministry staff that "in judging the performance of middle and senior managers, their living up to these guidelines and directives will be an element of their performance appraisal".

In discussing the reorganization of its administrative functions, the Ministry also noted that a systems information and technology branch had been established. This was expected to ensure appropriate procurement practices for systems equipment, as well as strengthening the Ministry's capability to respond to the growing information management demands generated by the expansion in the scope and scale of its work.



## **Tighter Control Required Over Use Of Vehicles**

The Committee questioned the Ministry about the Auditor's finding that improved control was needed to maximize the economic utilization of Ministry vehicles. The Auditor had found a number of instances where Ministry vehicles were being under-utilized while Ministry staff were using their own vehicles at levels above those established as economic by a Management Board study. The study had found that Ministry vehicles should be used by staff who travel more than 15,000 kilometres a year outside Toronto and 22,000 in Toronto.

The Auditor's review identified 25 staff who had logged in excess of this amount using their personal vehicles. In one instance, one employee was reimbursed in excess of \$9,500 in one year for driving his own vehicle 53,000 kilometres on Ministry duties, while during the same period a Ministry vehicle logged less than 8,000 kilometres. The Auditor noted that similar findings on the uneconomic use of Ministry vehicles by the Air and Water Resources Branches had been noted in his 1984 Report, and that the Ministry's Management Audit Branch has also made similar findings in its 1985 Report.

In its response to the Auditor's 1984 Report, the Ministry had stated, "Each branch has assigned a staff member to coordinate vehicle use and maintenance. All staff of the Division have been directed to use Ministry owned or leased vehicles wherever practical. A review of Branch vehicle needs and of the mechanical fitness of all vehicles is underway, with respect to the possible reassignment or disposal of these vehicles".

In response to the Committee's questions on the Auditor's 1987 findings, the Ministry noted a number of measures which it was taking:

- establishment of fleet management coordinators for each branch and region;
- review and verification of the situation identified by the Auditor;
- participation in the government's general fleet management learning program, which has been underway for the past two years and involves a number of initiatives, including the development of a computerized information system which will have preset standards for comparison with actual vehicle performance;





- requirements on regional directors to track usage of vehicles and to educate and manage their staff to ensure that guidelines are followed.

The Committee asked how the Ministry planned to address the problem of under-utilization of its existing vehicles. The Deputy Minister stated, "We will simply be saying to people that they must use the Ministry vehicle because it is the more efficient expenditure. At some point we are going to have to simply say, "We will not honour expenditures on your own vehicle over a certain distance . . . I hope we can bring about what I would call the cultural change in the Ministry this year. If it does not occur . . then I think we will kick harder."

The Committee also asked about the reliability and condition of Ministry vehicles. The Ministry indicated that at present, it does not have criteria to monitor mechanical performance, and that decisions on vehicle maintenance are made by the vehicle coordinators in the branches and the regions, using the manufacturer's suggested schedule of repair. Decisions on disposal are made in accordance with Management Board guidelines, i.e. disposal after the vehicle is five years old, or has logged over 130,000 kilometres, or requires repairs in excess of the value of the vehicle. The Ministry noted that the computerized fleet management information system being developed by the government-wide program would establish standards against which actual performance could be assessed.

In response to Committee questions, the Ministry indicated that some of the cars might end up in "fairly questionable condition" due to being driven by a number of people in a variety of circumstances, and that there were staff inconveniences caused by such things as smoking in vehicles, and returning the cars to the Ministry in the evening prior to going home. It was also noted that some staff travel a great deal, on a daily basis, and would benefit from the availability of an air-conditioned car or their own cars to which they are accustomed. However, the Ministry felt that "the basic point remains that if one is looking for an efficient and effective use of public funds, then the [cut-offs of 15,000/22,000 kilometres] indicate where some aspect of these fleet savings can be achieved".



## Recommendations

### Monitoring of Countdown Acid Rain

The Committee commends the establishment of an independent monitoring program for the four companies involved in Countdown Acid Rain, and recommends that monitoring continue on a frequent and random basis. The Committee notes the Ministry's statement that it planned to conduct monitoring every two months following its first inspection in November 1987.

#1. The Committee recommends that the Ministry provide a comprehensive response within 120 days of the tabling of this Report, which shall:

- describe the monitoring that has been done at each facility beginning with the monitoring conducted in November 1987;
- identify the dates of such activities;
- set out the Ministry's findings on:
  - the extent to which the companies are meeting applicable standards on emissions, and
  - any discrepancies between the Ministry's findings and the data reported by the companies; and
- describe the Ministry's actions in any cases of non-compliance which have occurred.

### Efficient Allocation of Resources to Complaint Resolution and Inspection Activities

The Committee recognizes that there has been a rapid increase in the level of public complaints, and that responding to these external demands creates pressures to reduce efforts on Ministry-initiated activities. However, the Committee believes it is essential that the Ministry undertake proactive environmental control activities as well as reacting to complaints.

#2. The Committee recommends that the Ministry develop a formal system embodying criteria against which complaints can be assessed and prioritized, integrate its inspection activities into this system, and review the allocation and deployment of its staff, such that:





- an established minimum proportion of Ministry resources should be devoted to inspection activities except in exceptional or emergency circumstances; and
- the Ministry's computerized system for tracking complaint resolution should have the capability to analyze complaints and identify patterns which can be used to prioritize inspection activities and to improve the quality of information available to concerned members of the public.

The Committee notes the Ministry's statement that its computerized complaint information system was expected to be in place within six months of the hearing, i.e. in late summer. The Committee requests that the Ministry's comprehensive response, as requested in its first Recommendation, also outline what measures the Ministry has taken to increase the efficiency of its complaint resolution and inspection activities in response to the Committee's recommendation on this matter. The Committee notes its intention to review the Ministry's comprehensive response, and to report its findings in its 1988 Annual Report.

#### Municipal-Industrial Strategy for Abatement (MISA)

#3. The Committee wishes to emphasize that environmental protection cannot be allowed to await implementation of MISA. The Committee recommends that the Ministry vigorously use all instruments currently available to it so as to achieve the earliest possible reduction in the pollution of Ontario's waters. The Committee also wishes to note its concern about the delays which have been experienced in implementing MISA, and recommends that the Ministry continue to give this initiative the highest priority.

#### Improved Administration

The Committee notes the Ministry's commitment to improve its administrative practices by adhering to tendering requirements and by ensuring that ministry vehicles will be used more cost-effectively in future, and its view that the measures which have been taken will achieve these goals.

#4. The Committee observes that these issues have arisen before, and requests the Auditor to review the Ministry's performance in this area as part of his next review of the Ministry, and to include any instances of non-compliance in his Report.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February 1988

Monday, 22 February

10:00 a.m.  
and  
2:00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor

Re: Section 4.7

Improved Pollution Enforcement  
Procedures Needed,  
Environmental Control Program

From the Ministry of the Environment:

Gary Posen  
Deputy Minister

Walter Giles  
Associate Deputy Minister  
Intergovernmental Relations  
and Strategic Projects Division

Dr. David Balsillie  
Assistant Deputy Minister  
Environmental Services Division

Andre Castel  
Executive Director  
Corporate Resources Division

Erv McIntyre  
Executive Director  
Approvals and Engineering









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XC21  
P71



Ontario

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# Standing Committee on Public Accounts

Third Interim Report  
1988

1st Session, 34th Parliament  
37 Elizabeth II





Queen's Park  
June 1988

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour  
to present its Report and commends it to the House.

A handwritten signature in cursive script, reading "Ed Philip".

Ed Philip, M.P.P.,  
Chairman.





STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP AS OF MONDAY, 23 NOVEMBER 1987

ED PHILIP  
Chairman

BILL BALLINGER

STEVEN OFFER

DOUG CARROTHERS

ALAN W. POPE

MIKE DIETSCH

GILLES POULIOT

JOAN FAWCETT

ROBERT W. RUNCIMAN

SHELLEY MARTEL

DAVID W. SMITH

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Douglas Arnott  
Clerk of the Committee

Wendy MacDonald  
Research Officer



## Introduction

On February 25, 1988, the Public Accounts Committee considered the Auditor's findings regarding operating deficiencies at the Liquor Control Board of Ontario (LCBO). The LCBO, first established in 1927, regulates the sale and transportation of liquor throughout Ontario, and establishes and operates stores for the sale of liquor to the public for off-premises consumption. In 1975, it became a Crown Corporation with a profit-making mandate. The LCBO operates some 622 stores throughout Ontario. At March 31, 1987, the LCBO had 3,348 permanent and 2,304 temporary employees. In fiscal 1986-87, the LCBO sold \$1.8 billion of liquor. Net income from these sales, which was paid to the province as revenue, was \$637 million.

The LCBO is subject to annual audit by the Provincial Auditor under Section 6 of the Liquor Control Act. The LCBO's operating practices have been the subject of scrutiny by the Public Accounts Committee and the Provincial Auditor for the past several years, during which a wide range of concerns has been identified. The Auditor's 1987 Report suggests that a number of the problems which have been identified in the past have not as yet been satisfactorily resolved. In the course of his annual audit of the LCBO, the Auditor had also conducted a value for money oriented review of certain LCBO operations:

- to assess how well the LCBO was managing its liquor inventories, an area previously reviewed in the Auditor's 1983 Report;
- to review the LCBO's monitoring of operations at the Durham warehouse, an area previously reviewed by the Auditor in 1985; and
- to evaluate staffing levels in stores so as to ensure that stores were being operated efficiently and effectively.

The Auditor estimated that the LCBO could reduce inventory levels in its stores and warehouses by \$78 million, or 40% of total average annual inventory. These levels of excess inventory were comparable to those noted by the Auditor in 1983 and reviewed by the Public Accounts Committee in 1984. The Auditor also found that the LCBO's controls over its listing and delisting policies were inadequate. As well, the Auditor noted that the Durham warehouse "continues to be plagued with numerous operating problems".





Finally, the Auditor identified overstaffing, such that scope existed to reduce payroll and benefits by an estimated 18% — \$27 million, out of a total 1986 payroll of \$142 million.

The Committee reviewed these concerns with the officials responsible for these areas, including the deputy minister of the Ministry of Consumer and Commercial Relations, the Chairman of the LCBO, the Executive Vice-President of the LCBO, and the Acting Vice-President of the Retail Division of the LCBO. These officials indicated to the Committee that the LCBO was in the midst of a transition. A consultant study which had been launched by the Minister in January 1987 had resulted in a major reorganization in November 1987 and a number of vacancies at the senior management level which were still being staffed at the time of the hearing. A number of the LCBO's policies and procedures were also being revised, including its listing and product policy, its distribution system, its performance monitoring and measurement systems, and its staffing criteria. As well, new technology, such as point-of-sale technology, was being introduced to modernize the LCBO's operations.

The fact that many of these changes were still at an early or planning stage made it difficult for the LCBO to give conclusive answers to some of the Committee's questions. However, the witnesses answered questions on a number of the Auditor's findings and described current initiatives to overcome specific operating deficiencies.

## **Poor Inventory Management**

### Background

In 1983, the Auditor had reviewed the LCBO's inventory management practices and had made the following findings:

- The ordering system was based on a study done in 1962 by a firm of management consultants. The system took into account criteria and procedures for order cycles, customer service levels, safety stocks, and inventory control levels. The Auditor found that the LCBO followed these criteria, but that there was no formal policy incorporating the study's criteria for planning and controlling inventory.



- In 1983, the LCBO had 2700 listings, or 79% of its current level. The Auditor found that inventory ranged from \$112 to \$188 million through the year, and expressed concern about the LCBO's inventory practices:
  - the LCBO ordered up to six months requirements of most of its imported wines and beers, in order to cover sales through the winter months, thus increasing its storage requirements and incurring costs of \$750,000 a year through the rental of non-LCBO facilities;
  - the LCBO's inventory levels for domestic products were, on average, 40% in excess of the LCBO's own target tables, leading to further costs for outside storage facilities.

In his 1987 Report, the Auditor found that the LCBO's liquor inventories continued to be poorly managed. The Auditor examined both the LCBO's forecasting, ordering, warehousing, and stocking procedures and practices, and the way in which the LCBO chose its product mix. The Auditor estimated that up to \$78 million was tied up in excess inventory — or 43% of the average 1986–87 inventory of \$183 million. Significant problems of excess inventory existed in both the stores and in the warehouses. Deficiencies were also identified in the LCBO's listing and delisting procedures and practices.

The Committee considered the problems identified by the Auditor in terms of a cycle which involved choosing the product lines, ordering the products, warehousing them, distributing them to stores, selling them, monitoring sales, and feeding the information back into decisions about what product lines to discontinue, what new lines to bring in, what quantities to order and ship, and how to allocate the products among stores.

#### Weaknesses and Inefficiencies in Listing Procedures

The Auditor's 1987 Report marked his first examination of the LCBO's listing policies. New products are listed on the basis of an evaluation by the LCBO's Listing Committee of the product's quality, price, perceived public demand, marketability, non-duplication of existing product lines, and sales performance elsewhere. In 1986, 1,200 imported products were evaluated and 45 were listed.

The LCBO's procedures are contained in its Listing and Product Policy, which was last published June 1, 1986. This policy was undergoing a major revision





at the time of the Auditor's review, which had not been finalized at the time of the Committee's investigation in February 1988.

The Auditor's findings suggested that the LCBO made its listing decisions regarding new products in a centralized way. The process appeared to be almost entirely supplier-driven, through submissions by suppliers of applications and samples to the LCBO for testing and evaluation.

The Auditor expressed concern that existing listing policies were not being followed:

- In many instances, information submitted by would-be suppliers was inadequate to allow a valid decision.
- There was no evidence or documentation to demonstrate that the LCBO's listing criteria had been consistently applied in all cases.
- There were some instances where poorer-ranked products had been granted a listing over products ranked higher on a price-quality criterion.
- There was no evidence that the evaluation procedures had been applied to domestic wines.

The Auditor also identified inefficiencies in the listing process. The Report noted that LCBO staff tasted and priced all products submitted for listing rather than prioritizing or limiting applications. This was done despite knowing that the Listing Committee was only prepared to list a very small number of products in some categories (in 1986, less than 4% of imported product applications were eventually listed). The Auditor noted that this approach placed costs on the LCBO, pointing out that the budget for the LCBO's quality control department was expected to almost double in 1987-88, to allow for three additional tasting staff. The Auditor also noted that the LCBO did not practice cost recovery through the levying of an application fee to cover evaluation costs.

The LCBO had indicated, in its response to the Auditor, that a proposed revision of its Listing and Product Policy would be assessed by its Board at a meeting in November 1987. It was expected that the new policy would address the problem of inadequate supplier information noted by the Auditor.



In its written response, the LCBO also noted other measures to address specific concerns of the Auditor. Some of its excess inventory was attributed to the "forced listing" of new Ontario wine products, and it was noted that procedures had been put in place to more clearly indicate the application of Ontario's domestic winery assistance policy to particular listing decisions. In response to the Auditor's concern regarding poor documentation of listing decisions, the LCBO indicated that in future the blind tasting sub-committee would retain its assessment documentation on file for one year.

Regarding the Auditor's findings of inefficiencies in the listing process, the LCBO felt that it was important to taste all products submitted for listings so as not to miss out on "instant successes". However, the LCBO noted that it intended to review its policy. The increase in quality control costs was attributed to the need to meet the recommendations of the Osler Royal Commission (which had investigated the LCBO's handling of the discovery of high levels of ethyl carbamate in some of its listed wines.) Regarding the lack of cost recovery for review of applications, the LCBO indicated that its policy is to accept all new product submissions without charge.

As the LCBO's Listing and Product Policy was still under revision at the time of the hearing, the Committee directed much of its attention to the other issues discussed below. A question was raised, however, as to whether the LCBO conducted market research to guide its listing decisions as opposed to being largely supplier-driven. In response, the LCBO indicated that it did have staff whose responsibility was to track new products and their performance elsewhere, and trends in sales and consumer tastes. It was noted that the reorganization of the LCBO which had taken place in November 1987 had included the establishment of a new vice-president position in the marketing and merchandising area, and that this post was in the process of being staffed. It was expected that additional market research staff would be hired in the future.

#### Excess Inventory in Stores

The Auditor's review of over 500 stores indicated that the total average inventory of \$87 million could be reduced by \$40 million or 46%,





with little if any adverse effect on the public. The Auditor linked this excess inventory to a number of factors:

- Existing demand forecasting and ordering procedures were being applied improperly or were not being used at all in a majority of the stores reviewed.
- Monitoring of inventory levels was "virtually non-existent" at the store level and deficient at the head office.
- Customer service standards for product availability were not formally defined, and appeared in practice to be 100%, i.e. never to be out of stock of any listed brands — leading to over-ordering.
- There was no central capability to monitor stockouts or customer complaints arising from stockouts, and thus no capability to develop standards on minimum and maximum levels of brands.
- Stores were carrying a very high proportion of slow-moving brands — 65% of all brands sold on average a bottle every two weeks.

In its response to the Auditor, the LCBO had expressed some concern about the Auditor's findings on store inventory, indicating that a LCBO analysis had shown the excess to be between \$11 and \$18 million (depending on the definition of "excess"), rather than \$40 million. However, in response to the Committee's questions on the Auditor's overall finding of \$78 million in excess inventory, the Chairman stated, "I think [the Auditor's staff] have been very fair in the way they have gone about it. I am not being critical of them. They have taken our procedures, what procedures existed — we were not following them properly — and they have applied them. If we had stuck rigidly to it, that is how the numbers work out".

The LCBO had noted in its written response that the "theoretical overstocking is mainly in the low end", including new and seasonal products. A number of policies contributing to its overstocking had been identified:

- the informal policy of never being out of stock of any listed brand;
- the high number of new listings;
- the policy of ordering in case lots, which the LCBO believed to be more economical in the overall context of its distribution system;



- Optimum reorder points had not been established, i.e. reordering of imported brands was done on a subjective basis rather than a system weighing the cost of frequent shipments of small orders versus the costs of warehousing large orders. This was the case despite a commitment by the LCBO in 1983, following the Auditor's last review of inventory levels, that a study would be done to establish optimum reorder points.

In its written response, the LCBO did not dispute the Auditor's findings on the extent of excess inventory in warehouses. It was indicated that a number of measures affecting both domestic and imported brands had been taken:

- the new procedures which the Auditor had found were only being used in two of the four warehouses, were to be in use in all four by the end of 1987;
- a task force had been formed to identify and get slow moving products out of all warehouses;
- stock transfers had been arranged between warehouses to balance stock levels; and
- warehouses had ceased ordering stocks already in excess.

The LCBO also indicated in its written response that it was undertaking a comprehensive study of its distribution system and hoped to carry out a rationalization of its system in 1988.

The Committee questioned the LCBO at some length on its excess inventory problems. In partial explanation, the LCBO noted that its inventory always experiences a bulge in the fall due to the need to build up the Christmas inventory over a period of several months. The LCBO had also stocked up with inventory for 14 duty-free stores planned by the federal government and subsequently stopped. As well, customer complaints about initial shortages at the Vintages stores had led the LCBO to overcompensate and overstock. The LCBO stated that the latter two items accounted for \$12 million in excess inventory.

The LCBO provided some additional detail to the Committee on how it was improving the application of its present procedures for inventory in the stores:





- education of warehouse staff as to the emphasis being placed on inventory management, through such measures as meetings between the vice-president of distribution and small groups of warehouse staff;
- workshops and a video on proper forecasting and ordering procedures for education of store staff;
- revision and updating of manuals on ordering procedures; and
- revision of individual store quotas to remove slow-moving brands.

The LCBO also indicated to the Committee that further improvements could be expected in the future. In recruiting for the post of senior vice-president of operations, responsible for merchandising, retailing, and warehousing, the LCBO was seeking someone "from the outside to bring in the badly needed skills in inventory management and retail".

The LCBO noted that the consultant study was addressing the issue of customer service standards. Although this area had not been finalized at the time of the hearing, consideration was being given by the LCBO to the use of an approach whereby top-selling brands would have a very high in-stock standard, 98% or 99%, while the slowest-selling brands might have an in-stock standard of only 80% or 85%. It was noted that this measure would allow significant reductions in store inventory if implemented, but that it had implications for small suppliers and for customers preferring these brands.

In this regard, the LCBO noted some recent trends and findings regarding its customers:

- customers have shown increasing interest in recent years in trying new products, creating pressure to list more products;
- new products gain and lose popularity very quickly, reducing the life span of products;
- customers appear to expect a higher level of service in government-operated systems with regard to such matters as availability;
- generally, customer satisfaction with the modernization of the LCBO's image and operations is very high;
- customers' major concerns are pricing and parking.



The LCBO noted that, overall, its inventory turns over 4.8 times a year, compared to Quebec at 4.2 times a year. However, the LCBO planned to improve on this and outlined some specific targets on warehouse inventory which it hoped to attain. Within the coming year, it was stated, the LCBO would seek to not have more than three months stock of any brand in the warehouses at any one time. The targets for the coming year are to have imported stock turn over three times, and to have domestic stock turn over twelve times. In the following two years, it was indicated, further improvements would be sought: imported turnover of five times and domestic turnover of 16 times.

The LCBO noted that it had recently let a contract of approximately \$20 million for the purchase of point-of-sale technology which it felt would bring it "into the world of a modern retailer". This technology, which other retailers have had for the past decade and which in fact is already in its second generation, was expected to pay for itself in seven years. It was felt that it would allow instantaneous central monitoring of sales at all stores and computerized reordering and restocking. The LCBO was examining means to build flexibility into the system to allow for such variations as seasonal preferences and major events in small communities. This system was expected to lead to significant improvements in the longer term in store inventory levels.

#### Deficiencies in Delisting and Disposal Procedures

The LCBO's June 1986 Listing and Product Policy sets out schedules of sales quotas for various categories of alcoholic beverages. All listed products are also subject to store quotas, although these are not set out in the Policy. If a new product fails to meet its overall quota within 18 months of listing, or if existing products fail to meet their overall quotas on an annual basis, then they are subject to delisting. When a product is delisted, the LCBO attempts to sell off its remaining stocks at a discount, and obtains rebates from the supplier to offset the cost of the discount. The Auditor identified some serious deficiencies in the operation of these procedures:

- The fact that 83% of delisted products (in dollar terms) had been in inventory for over a year at March 31, 1987, suggested that procedures to dispose of these products were inadequate.





- **July 1978:** The capital costs of the proposed warehouse were revised upward to \$53 million (1979 dollars).
- **March 1979:** The government decided not to proceed with construction of the warehouse and to review the matter at a later date.
- **May 1979:** The Government approved an Order-in-Council authorizing the purchase of the land on which the warehouse was to be built, at a cost of \$2 million.
- **April 1980:** The Government reconsidered the matter and approved the construction of a new warehouse in the Whitby area. The new facility was intended to replace four existing owned and rented warehouses, and to centralize storage and distribution for LCBO stores in Toronto and the surrounding area.
- **1981:** A consulting firm reviewed the capital cost of the project, which now involved a substantially different design concept, and estimated the cost at \$81 million (1981 dollars) excluding land costs.
- **January 1982:** The LCBO approved the sum of \$105 million (excluding the \$2 million in land costs) for the construction of the warehouse. The additional funds were intended to cover inflation up to the expected completion date of 1984.
- **December 1983:** Construction of the warehouse itself was completed. The plan had called for the materials handling equipment (\$37 million) to be installed and ready for testing at this time. The equipment was to be subjected to an eight-hour test and a 28-day test, leading to the warehouse becoming fully operational on July 1, 1984. The two contractors hired to supply and install the equipment failed to meet the December 31 deadline.
- **September 1984:** The first eight-hour test of the equipment was conducted and failed badly.
- **November 1984:** The contractors postponed a second eight-hour test which had been scheduled. Later in the month, the LCBO notified the contractors that, unless they fulfilled their contractual obligations, legal action would be taken to recover damages.
- **January 1985:** The eight-hour test was completed and accepted by the LCBO, although with some reservations.
- **February 1985:** The first 28-day test commenced. As of mid-September, 1985, the test had still not been completed satisfactorily due to various problems including equipment breakdown.
- **August 1985:** The warehouse went into operation, although the equipment was not yet functioning satisfactorily. Capital costs had totalled \$99 million, or \$6 million below the final approved budget, presumably reflecting the slowing in inflation.
- **September 30, 1985:** The LCBO advised the Provincial Auditor that the equipment test had been completed, although the LCBO had not paid the holdbacks (\$5.5 million) to the contractors.



- **November 1985:** The Auditor reported on the matter in his 1985 Report and notes that the delay in reaching operational status had resulted in extra rental storage costs of \$250,000 a month, or over \$3 million. In response, the LCBO noted that the materials handling system was very complex and that the contractors had had to make a number of modifications to meet the LCBO's specifications.

The Auditor found that numerous operating problems had been experienced at the warehouse since his 1985 Report:

- The warehouse had an operating staff of 161 people, 42 staff above the level predicted in studies in 1981 and 1983. Staffing costs per case of product handled were higher than at the non-automated warehouses.
- The warehouse was only serving two-thirds the number of stores it had been designed to serve. Other warehouses, rather than seeing their service load decline by half, as had been predicted, had seen it increase.
- A consultant's report, finished in September 1986, concluded that in general the system was working as it had been designed to. However, some major problems were reported, including the problems of overstaffing and poor capacity utilization also found by the Auditor a year later. Other problems were:
  - poor quality of orders shipped, i.e. breakage;
  - poor crane performance (76 breakdowns per day in the summer of 1986);
  - preventative maintenance behind schedule;
  - poor training of operators and inadequate understanding of system by operators;
  - inadequate system capacity to handle all listings carried by the LCBO.

In its response to the Auditor, the LCBO provided a detailed explanation of the extra 42 staff. The response also outlined a number of specific measures which had been taken to address the problems of equipment breakdown, deficient maintenance, poor training, and product quality which had been identified in the 1986 consultant's report.

The Committee questioned the LCBO at some length regarding its progress in this area. The LCBO felt that some start-up difficulties were inevitable in a project using state-of-the-art technology at such a massive level, and





indicated that the previous six months had seen a substantial improvement in performance. During that time, efficiency levels had ranged from 92% to 95%. It was noted that, for the first time in eight years, there had been no delay in getting the Christmas buildup to the 622 stores in the system. It was stated that the LCBO would work to improve efficiency further, although it was thought unlikely that efficiency could be improved much above 97%.

In response to the Auditor's concern that the warehouse was serving a much smaller number of stores than had been planned, the LCBO indicated that the Durham warehouse's service area had been restricted while start-up difficulties were being overcome. The LCBO felt that it would have been unwise to expand the warehouse's service area to its design capacity while problems were still being experienced.

The Committee also questioned the LCBO whether, setting aside the operating problems, the warehouse itself was appropriate to the LCBO's needs, given that it was designed to accommodate an inventory which the Auditor had repeatedly found to be excessive. The LCBO felt that the warehouse was essential to its efficient operation as the world's largest retailer of beverage alcohol. It was noted that the warehouse is not only intended to serve 360 stores, but is also the intake point for all of the LCBO's imported products, and the distribution point for all its commercial customers. It was felt that the previous systems, which were widely scattered and totally manual, were not adequate to meet the LCBO's needs.

The Committee questioned the LCBO about the applicability of innovations in inventory management such as just-in-time, and the potential for more extensive direct delivery by suppliers. The LCBO felt that its recruitment of senior executives from the private sector with expertise in this area would assist it to apply modern techniques where appropriate. With respect to a direct delivery system, the LCBO noted that it bears the cost of deliveries, and felt that the size and complexity of the distribution system was such that a centralized, LCBO-run system was more cost-effective and orderly than supplier delivery.



## Overstaffing of Stores

The Committee questioned the LCBO about the Auditor's finding that there was substantial overstaffing, at both management and staff levels. The Auditor estimated that the potential existed to reduce the payroll by \$27 million a year, or 19% of the total, implying a reduction of staff by 890 positions, or 18% of the total.

The Auditor had reviewed staff levels at 60 stores during fiscal 1985-86, and found significant variations in staffing costs compared to volume of sales. A further review of 170 stores, which took a range of staffing factors into account, confirmed the findings of overstaffing. The Auditor concluded that the potential existed to reduce staff payroll and benefits by \$18 million, implying a reduction of 640 store staff positions. The Auditor also reviewed the staffing process used by the LCBO and found that there were no formal criteria for measuring staff productivity and for establishing appropriate staffing levels.

The Committee questioned the LCBO extensively on these findings. The LCBO acknowledged that in the past, it has had no formal criteria to set staffing levels for new stores or to adjust staffing levels to accomodate changing conditions in its existing stores. The LCBO stated that it did have "informal guidelines" for these purposes, but further discussion indicated that these guidelines were very broad (for example, store size classification), and were not being monitored against actual store operations. As such, the LCBO was unable to either verify or refute the Auditor's finding that its store payroll could be reduced by \$18 million. The LCBO did note, however, that it has increased the amount of staff training, and that this has staffing implications through hiring of temporaries to replace staff being trained.

The LCBO indicated that it was conducting a review of its staffing levels and that it was gathering information on staffing control plans from similar operations in other jurisdictions. The Chairman indicated that the target was to submit a staffing report to the Board in September 1988, setting out modules and a time frame for determining the staff of every store.





The Committee also questioned the LCBO about the Auditor's finding that \$9 million in payroll savings could be achieved through the deletion of an assistant manager position from each of the 250 large and medium-sized stores in the system. The Auditor had reviewed a sample of the stores and found that the 86 double-shift stores have three management staff, with purely supervisory duties, out of a total per shift of nine-ten people, and that the 164 single-shift stores have two management staff, with purely supervisory duties, out of a total per shift of five-six people. The Auditor felt that an adequate level of supervision could be maintained by deleting one assistant manager position per store.

In its response to the Auditor, the LCBO had stated that its two - three managers per large and medium sized store did not perform purely supervisory duties, although it did not indicate the nature or extent of their non-supervisory duties. The LCBO felt that any eliminated assistant manager positions would have to be replaced by clerical positions. However, the LCBO agreed that jobs needed to be better defined.

Upon Committee questioning, the LCBO did not fully concur in the Auditor's findings about the elimination of assistant manager positions. The Chairman indicated that he had discussed the issue with store managers and that they had expressed concern about the concept of eliminating these positions altogether. Some managers had been receptive to replacing these positions with clerks, allowing some payroll savings. The LCBO indicated that this issue was being studied as part of their review and development of staffing criteria.

The Committee also questioned the LCBO about the Auditor's finding about the potential for staff savings through the conversion of small stores to agency stores. The Auditor had noted that the LCBO operates 69 agency stores in remote locations, whereby private agents sell liquor under agreement with the LCBO. The agent receives a discount, and the LCBO is able to eliminate overhead expenses. The Auditor recommended that the 129 "D" stores (the smallest stores in the system, with sales of less than \$1 million annually) should be converted to agency stores. The Auditor calculated that this measure would save the LCBO approximately \$5 million a year.



In its response to the Auditor, the LCBO agreed with this recommendation, but noted that this matter had been deferred until the government finalized its decision regarding beer and wine in corner stores. The LCBO indicated to the Committee that this policy issue was still being resolved, and that in the interim, it was developing a plan for potential use, involving the expansion of the agency store network and the conversion of "D" stores. This plan would have to be approved by the government before the LCBO could proceed with any conversions. The LCBO noted that conversion of all "D" stores would allow staff reductions of 300–400 people, and emphasized that any conversions which took place should be carried out in a gradual manner so as to allow staff and community adjustment.

### **Recommendation**

The Committee notes with concern the Auditor's many findings regarding the inefficient and uneconomical operations of the LCBO. The Committee further notes that the Auditor's 1987 findings are only the latest in a series of such findings and criticisms by both the Auditor and the Public Accounts Committee. The Committee observes that some improvements have been achieved through measures to address specific problems, such as the more timely disposal of delisted stock.

On a more general level, the Committee notes that the LCBO is undertaking a broad range of initiatives to render its operations more businesslike and up-to-date, which holds the potential to address the concerns. However, these initiatives are still largely in the planning and development phase, and as such their content was not available to the Committee for review. The Committee notes the LCBO's view that many of these measures will be finalized in the six months following the hearing.

The Committee requests the LCBO to provide an interim report within 120 days of the tabling of this Report, describing progress on the matters outlined below, and to provide a comprehensive report by March 31, 1989 on further progress and achievements on these matters. The Committee notes its intention to review the reports, and to recall the LCBO for questioning on progress if the Committee deems it necessary.





The interim report and the comprehensive report shall describe progress in the following areas:

- improvements in store inventory levels as identified by the LCBO's new performance monitoring system and by the central measurement system which the LCBO had indicated in its response to the Auditor was being refined;
- revision and updating of manuals setting out ordering procedures for the stores;
- implementation of point-of-sale technology in the stores;
- development of new customer service standards, including standards for availability of products at different sales levels;
- revision of the LCBO's Listing and Product Policy;
- findings on trends in warehouse inventory levels, including any improvements which have been achieved during 1988, and data on actual turnover of stock compared to the LCBO's stated 1988 target of three times a year for imported stock and twelve times a year for domestic stock;
- operations at the Durham warehouse, including the efficiency levels during 1988, staff levels, and any increases in the number of stores being served from the level of 241 identified by the Auditor;
- development of staffing criteria, which the LCBO had indicated it planned to submit to its Board in September or October of 1988, including any findings on potential efficiencies at either the operational staff or management levels; and
- recruitment of a new senior management team, which the LCBO had felt would be completed three-six months after the date of the hearing, i.e. between the end of May and August.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February 1988

Thursday, 25 February

10:00 a.m.            1. 1987 Annual Report of the  
Provincial Auditor

Re:            Section 5.2

Operating Deficiencies

From the Ministry of Consumer and  
Commercial Relations:

Valerie Gibbons  
Deputy Minister

From the Liquor Control Board of  
Ontario:

Jack Ackroyd  
Chairman

L. F. Pitura  
Executive Vice President

W. McLelland  
Acting Vice President  
Retail Division

Henry Toran  
Director, Durham Warehouse  
Products & Distribution Division

L. Yazejian  
Acting Director of  
General Audit



## APPENDIX C

### STANDING COMMITTEE ON PUBLIC ACCOUNTS

#### Summary of 1988 Reports

#### FIRST INTERIM REPORT, 1988

**Subjects:** The Provincial Auditor's 1987 Report, Section 4.8  
Weak Procedures and Controls, Health Insurance Program  
Ministry of Health

The Provincial Auditor's 1987 Report, Section 4.9  
Problems in Mental Health Care  
Ministry of Health

**Tabled:** May 26, 1988

**Summary:** On February 16, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of Health concerning the Provincial Auditor's findings of weaknesses in three computer systems which support the delivery of the Ontario Health Insurance Program (OHIP). The Auditor had concluded that the computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and had not kept pace with advances in computer system design. The Auditor had also found that large payments were being made for out-of-country treatment of psychiatric and addiction patients, and had identified basic errors in the operation of the system for payment of out-of-province claims.

The Committee recommended that the Ministry develop and implement a new computer system to overcome the weaknesses identified by the Auditor, and that in the interim it take all feasible measures to address the various deficiencies identified by the Auditor. The Committee also recommended that the Ministry work to ensure that Ontario patients receive suitable treatment within Ontario, and that the out-of-province claims system be enhanced to prevent the errors noted by the Auditor.

On February 17 and 18, the Committee questioned officials of the Ministry of Health regarding the Auditor's findings of shortcomings in the system to provide and manage mental health care in the province. The Auditor's investigation had identified some major concerns:

- deficiencies in the staffing, facilities, and utilization of the ten provincial psychiatric hospitals;
- inadequate management information systems; and
- serious inadequacies in the availability and coordination of housing alternatives and community support available to ex-psychiatric patients.





The Committee heard from the Ministry that a wide range of initiatives were underway to address these concerns. The Committee noted its intention to assess those initiatives through visits to a number of facilities in the fall of 1988, to recall the Ministry as necessary, and to report on progress in its final report for 1988.

The Committee recommended that the Ministry upgrade its management information systems, review its licensing requirements for homes for special care, and ensure adequate evaluation capabilities for its increased efforts in community mental health. The Committee also recommended that the Standing Committee on Social Development consider undertaking a comprehensive study of the housing and other community and mental health needs of ex-psychiatric patients, the adequacy of current and planned services, and options to overcome deficiencies.



## SPECIAL REPORT ON THE ESTIMATES PROCESS

**Subject:** The Provincial Auditor's 1987 Report, Sections 2.1 and 2.2  
Accountability of Government to the Legislature  
The Estimates Process – Maligned and Ineffective

**Tabled:** June 2, 1988

**Summary:** On April 14, 1988, the Standing Committee on Public Accounts reviewed the Auditor's concerns regarding the Estimates process in the Ontario Legislature, and his recommendations for reform of the process and strengthening of the accountability cycle. The Auditor had found a number of weaknesses in the Estimates process:

- procedural problems, including delays in review, inconsistencies in the level of scrutiny relative to expenditures, deviations from the planned schedule, and the inability to change items in the Estimates;
- deficient information on which to base scrutiny;
- pressures on the time and resources of members.

Linked to these problems, the Auditor found a lack of attention and commitment by members to the process. Noting the critical importance of the Estimates process to accountability, the Auditor recommended the establishment of a separate standing committee on Estimates, which would carry out in-depth scrutiny of a selected number of Estimates each year. Closing of the accountability loop would be achieved through subsequent review of those ministries by the Auditor and the Public Accounts Committee.

The Committee discussed these findings and recommendations, taking into account past concerns expressed by committees of the Legislature, and reform initiatives elsewhere. The Committee recommended that:

- a Standing Committee on the Estimates, chaired by a member of the Opposition, be established to conduct annual in-depth scrutiny of selected Ministry Estimates. The membership of the Estimates Committee was to include three members from the Public Accounts Committee, one from each party;
- six sets of Estimates per year be chosen for review, by all three parties, using a cycle of Official Opposition, Third Party, and Government Party, and that this be supplemented by a system of written questions to other ministries on matters of specific interest, and review of these other ministries where warranted;
- the Estimates Committee be given the power to recommend the reallocation of funding within each vote;
- the Estimates Committee, when established, give priority to the development of a schedule for completion of scrutiny, the review of the form and content of Estimates information, and the identification of necessary committee resources.





## SECOND INTERIM REPORT, 1988

**Subject:** The Provincial Auditor's 1987 Report, Section 4.7  
Improved Pollution Enforcement Procedures Required  
Ministry of Environment

**Tabled:** June 16, 1988

**Summary:** On February 22, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of the Environment on the Auditor's findings of weaknesses in pollution control procedures and operations, and deficiencies in administrative practices. The Auditor had found that the Ministry:

- had chosen not to independently verify data submitted under the Countdown Acid Rain program by contributors of acid rain emissions;
- was deficient in regard to follow-up of complaints and did too few self-initiated inspections;
- had been inactive in regard to a large number of companies discharging contaminants directly into Ontario's waterways, though it was seeking to address this through a proposed Municipal-Industrial Strategy for Abatement (MISA);
- had failed in several instances to comply with tendering procedures, and had not utilized its vehicles economically — echoing criticisms in earlier Auditor's Reports.

The Committee was informed that the Ministry had implemented an independent verification system for acid rain emissions, heard the Ministry's explanations that growth in the number of complaints and the demands of new environmental protection activities had placed strains on its complaint follow-up and inspection activities, and discussed progress on MISA. The Ministry also acknowledged weaknesses in its administrative practices.

The Committee recommended that the Ministry:

- provide a comprehensive response within 120 days of the tabling of the report, outlining its acid rain monitoring activities;
- develop a formal system and criteria to analyze and prioritize complaints, integrate its inspection activities into this system, and review the allocation of its staff, to ensure that an established minimum proportion of its resources are devoted to proactive environmental control activities; and
- give the highest priority to the implementation of MISA, and, in the interim, strengthen its enforcement activities using existing regulatory instruments.

The Committee also noted the Ministry's commitments to improve its administrative practices, and requested the Provincial Auditor to review performance in this area as part of his next review of the Ministry.









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# Standing Committee on Public Accounts



Fourth Interim Report  
1988

1st Session, 34th Parliament  
37 Elizabeth II





LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

Queen's Park  
July 1988

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour to  
present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read 'Ed Philip'.

Ed Philip, M.P.P.,  
Chairman.





**STANDING COMMITTEE ON PUBLIC ACCOUNTS**

**MEMBERSHIP AS OF MONDAY, 23 NOVEMBER 1987**

**ED PHILIP**  
Chairman

**BILL BALLINGER**

**STEVEN OFFER**

**DOUG CARROTHERS**

**ALAN W. POPE**

**MIKE DIETSCH**

**GILLES POULIOT**

**JOAN FAWCETT**

**ROBERT W. RUNCIMAN**

**SHELLEY MARTEL**

**DAVID W. SMITH**

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**Douglas Arnott**  
Clerk of the Committee

**Wendy MacDonald**  
Research Officer



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## Introduction

On February 25, 1988, the Public Accounts Committee reviewed the Auditor's findings of questionable operating practices at the Ontario Housing Corporation (OHC). The Auditor had identified several concerns in the course of his annual audit of OHC's operations:

- several of the Metropolitan Toronto Housing Authority's privately managed projects had experienced significant unauthorized cost overruns, and had incurred questionable expenditures which were subsequently investigated by the OHC, the Solicitor General, and the Ontario Provincial Police;
- maintenance staff of the Metropolitan Toronto Housing Authority had a level of workers' compensation claims in 1986 which was five times as high as the average for janitorial workers and in fact exceeded the level among the most hazardous occupations;
- one of the three housing authorities visited had awarded most of its 1986 contracts without public tender.

OHC, established in 1964, provides rent-geared-to-income housing for low-income families and senior citizens and for physically, developmentally, and psychiatrically handicapped adults. OHC pursues this mandate through a mix of public and private housing. It owns 84,500 public housing units, built in the period 1964 -1974, and manages them through a network of 58 local housing authorities who operate as agents of OHC under management agreements. OHC also operates rent supplement programs which subsidize rent in some 13,000 privately-owned units through agreements with the owners. The Auditor's review addressed the management of OHC-owned housing by three of the 58 local authorities.

OHC is a Schedule I agency of the Government of Ontario, and as such, is subject to considerable policy direction and control by the government and Legislature. It must follow the requirements of the Ontario Manual of Administration, and must obtain prior Management Board and Cabinet approval for all undertakings and funds. Its operations are prescribed by a Memorandum of Agreement with the Minister of Housing which details OHC's powers and objectives and sets out its operating roles and responsibilities.

OHC's affairs are managed by a Board of Directors responsible to the Minister of Housing and consisting of a Chairman, a Vice-Chairman, and up to 11



members appointed by Order-in-Council. The Board receives staff support from the Social Housing Wing of the Ministry of Housing, particularly the Field Operations Branch. Coordination is achieved through the fact that the Vice-Chairman and Chief Executive Officer of OHC is also the Assistant Deputy Minister responsible for the Social Housing Wing.

The local housing authorities are Schedule III agencies of the Government of Ontario and as such have been delegated substantial freedom of action to deal with local issues within the framework of a standard management agreement with OHC and general policy directives by the OHC. Their affairs are managed by volunteer boards nominated by all three orders of government — federal, provincial, and municipal — and appointed by provincial Order-in-Council. Approximately 450 citizens serve on the boards of the local authorities, and some 3,000 people are employed by the authorities.

The Committee reviewed the Auditor's findings with the responsible officials, including the Deputy Minister of the Ministry of Housing, the Acting Executive Director of the Field Operations Branch, and the Director of Internal Audit.

### **High and Questionable Costs, Some Privately Managed Housing Projects**

The Metropolitan Toronto Housing Authority (MTHA) is the largest of the 58 local authorities, accounting for over a third of all provincially-owned housing in Ontario. It administers 120 housing projects involving over 1,000 buildings, some 30,000 units, and approximately 100,000 tenants.

The MTHA is unusual in that it uses private companies to manage some of its projects and functions. Fifteen of the MTHA's 120 projects, involving some 6,000 units, are managed by three private property management companies, and security services are provided to MTHA projects by private firms. The private firms act as agents of OHC through management agreements with OHC. These agreements are administered by the MTHA. At the time of the Auditor's review, funding was based on an approved budget of annual operating expenses, plus a management fee. The 1986 operating expenses of these firms totalled \$31 million, and management fees to the three firms totalled \$370,000.





Both these areas — private property management and private sector security services — have been scrutinized by the Auditor in the past. The Auditor's 1985 Report noted that the agreements for private security services involved significant departures from the tendering and contracting procedures required by the OHC's Field Manual, and that there had been inadequate analysis of the appropriate level of security services. The Public Accounts Committee reviewed these findings, and recommended in its 1985 and 1986 Report that OHC use a competitive tendering process in future and that it more adequately analyze and monitor security incidents.

The Auditor's 1987 examination of the MTHA included a review of the 15 projects managed by three private property management companies. In 1985, the Auditor had expressed concerns to OHC about the lack of monitoring of these agreements, and significant and unauthorized cost overruns at some housing projects.

The 1987 audit also revealed significant cost overruns on maintenance expenditures, particularly with respect to two projects managed by one firm. Over-expenditures by that firm alone were \$400,000, or 29% over the authorized budget of \$1.4 million. The report further stated, ". . . our review of costs incurred revealed many instances of questionable expenditures (apparent duplicate billings, etc.)." The Auditor noted that OHC was reviewing these in conjunction with the Ministry of the Solicitor General and the Ontario Provincial Police.

In its response to the Auditor, OHC indicated that the MTHA was revising its controls through the establishment of a new three-year tendered fixed-price contract involving a performance bond, and that it was conducting a review of its internal controls on privately managed projects.

In response to the Committee's questions, the Deputy Minister provided further information on these initiatives and outlined progress. The cost overruns and questionable expenditures which had been identified by the Auditor were not specifically addressed as they were still under police investigation at the time of the Committee's hearing. (No update had been received on the progress of the investigation at the time of the writing of this report.) However, in response to a question as to whether the cost overruns were caused by lack of tendering on the part of the private



management company, it was indicated that the private firms had to follow the same tendering and procurement requirements as the housing authorities (these are discussed further in the final section of this report).

The new contract system was described to the Committee as a five-point strategy:

- a three-year operating budget that could not be exceeded;
- tender submissions based on comprehensive property management specifications set by the housing authority;
- a performance bond of up to \$1 million, depending on the number of units being managed;
- regular maintenance inspections by the housing authority, including inspection for preventive maintenance;
- provision for non-contract expenses for exceptional emergency expenses, which were required to be approved in advance by the housing authority.

In its response to the Auditor, OHC had indicated that the new controls had been applied to 13 of the 15 privately managed projects as of October 1987. The Deputy Minister informed the Committee that all but one of the private management companies was under the new system at the time of the hearing. The one outstanding contract was to expire at the end of 1988, at which time the new system was to be extended to that contract as well.

The Committee questioned whether the use of a three-year fixed-price contract had led to an increase in costs. It was indicated that in fact, tenders had actually been lower under the new system than under the former system, demonstrating the cost-effectiveness of the tendering process.

The Committee questioned the Ministry about its use of private management of some housing projects. The Ministry indicated that there were fifteen such projects in Toronto and one in Hamilton, and that these projects had been privately managed since their acquisition by OHC some 12 or 13 years previously. It was felt that the government of the time had chosen this approach in order to assess different modes of management, and that the privately managed projects still served a useful purpose in this regard. It was noted that, on an overall basis, costs and the quality of management were similar in the two systems.

Some concern was expressed that the private management system might lead to inefficiencies and inconveniences to tenants through frequent changes in





the companies managing the projects. In subsequent correspondence to the Committee, the Deputy Minister indicated that he had investigated this concern, and found that it did not appear to pose a major problem. It was noted that frequently the staff working for one company were hired by the new company when the management of a building changed. It was expected that the move to a three-year contract embodying comprehensive maintenance standards would eliminate any inconvenience to clients as a result of changes in management companies.

The Committee also asked whether OHC had developed the capability to cost and budget individual projects, one of the recommendations made by the Standing Committee on the Administration of Justice in its 1980 report on housing. It was indicated that presently the Ministry conducts random surveys as bases for comparisons of housing authorities, but does not do cost comparisons of individual projects. However, the Deputy Minister noted that the ministry was developing a new information system which was expected to be in place in 1989, and felt that it was possible that the system "would have a higher potential to pull out those numbers". In response to a further question on the Ministry's ability to categorize maintenance costs as being vandalism-related or ongoing, the Ministry stated that the new system would have this capability. The Deputy Minister also noted that he had reviewed the Report of the Justice Committee, and had found that, to date, 88 of its 119 recommendations had been implemented.

### **High Incidence of Workers' Compensation Claims, Metro Toronto Housing Authority**

The Auditor had found that the Metropolitan Toronto Housing Authority was experiencing an extremely high level of workers' compensation claims. The rate of 164 claims by some 630 maintenance staff in 1986 was over five times as high as the average rate for janitorial services, and was higher even than the rates for the most hazardous occupations, mining and diamond drilling. In 1986, these claims translated into 13 days per employee at a cost of over \$750,000 to the Authority. A number of project managers had expressed concern to the Auditor about possible abuse of the system. The Auditor did not find any evidence of efforts by OHC to set an investigation in motion or to tighten monitoring of claims.



In its response to the Auditor, OHC had indicated that the MTHA was considering a number of options to address the matter, including external studies of the problem, and discussions and co-operative efforts with labour and with the Workers' Compensation Board.

The Committee expressed serious concern about the Auditor's findings, and questioned the Ministry extensively as to the causes of the problem and the measures which had been taken. The Ministry indicated that the existence of a very high claim rate had first been discovered in a province-wide review by the Ministry's internal audit branch three years previously. MTHA was found to be the only authority experiencing such a problem; none of the other authorities was up even slightly.

The Committee noted that its research had indicated that the problem varied substantially within Metro Toronto's six regions, such that the region most affected lost almost four times as many days to sick leave and workers' compensation as the region least affected. The Ministry attributed this in some measure to differences in the projects. The Committee felt, however, that the differences in the housing stock and maintenance equipment did not in themselves appear sufficient to explain the variation.

The Committee asked whether the Ministry had analyzed the claims to identify patterns and problems. The Ministry indicated that it had done so, but that its findings had not been useful in earlier attempts to address the problem. Injuries were described as consisting largely of arm, leg, and back injuries, arising from slips, falls, lifting, and moving incidents.

The Ministry identified two reasons for the high rate of claims: that the workplace was not sufficiently safe, and that the management of claims might be deficient, leading to unwarranted claims. The Ministry felt that it was essential to address the issue of workplace safety first. To this end, it was stated, the MTHA had just implemented a major multi-faceted initiative which the Ministry hoped would resolve the problem:

- Two days prior to the hearing, on February 23, 1988, the MTHA and the union (Canadian Union of Public Employees) had signed a letter of understanding which committed both parties to the development of a modified work plan. This plan, which was to be implemented in the summer of 1988, involved the development of a system to allow injured employees to return to work on lighter duties until fully recovered.





- The MTHA had established a new employee health and safety section to:
  - administer the modified work program, including rehabilitation measures;
  - foster co-operation with the Workers' Compensation Board;
  - clarify medical reports and oversee accident investigations and follow-up; and
  - administer occupational health and safety.
- Liaison between the MTHA and the Workers' Compensation Board had been enhanced through secondment of MTHA staff to the WCB's Office of the Employer Adviser, and linkages between senior management.

The president of the CUPE local was present at the hearing, and testified that these measures were expected to bring about a substantial improvement, through increased safety of the workplace, the existence of a formal system to assign people to lighter duties, and enhanced employee morale. CUPE shared the view of the Ministry that the priority should be placed on improving workplace safety.

CUPE noted that the health and safety committees in Metro and in each region were playing a larger role than had been the case in the past, and that management was taking their views into account to a greater extent. The Ministry agreed with this statement, and felt that it was a positive development. CUPE felt that increased management responsiveness to the recommendations of the health and safety committees would lead to a considerable reduction in the number of claims in future.

The Committee raised the question of the impact of contracting out of maintenance work on employee morale, and the effectiveness and quality of such privately done work. CUPE indicated that it monitored privately done work orders, and occasionally lodged a grievance where it felt the work could have been done by the union. It was stated that management had been "quite reasonable" on such occasions. The reverse situation -- dissatisfaction on the part of tenants with the quality of work done by the union, and demands for privately done work -- was felt to be infrequent. In subsequent correspondence, the Deputy Minister indicated that one grievance concerning privately done work had been filed in the past, in 1986, and that it had been resolved at the first step of the grievance process.



The Committee asked whether the Ministry had done any analysis of the relationship, if any, between the level of contracting out in the various regions, and the level of workers' claims. The Ministry indicated that it had not, but that it was a question that should be checked.

The Committee asked when the Ministry expected to see an improvement in the level of claims. The Ministry indicated that its 1987 results, which were being compiled, were not expected to show any improvement, but that it hoped to see a substantial improvement in the last half of 1988.

### **Tendering Requirements Not Followed, North Waterloo Housing Authority**

OHC's Field Manual requires housing authorities to use public tenders for goods and services of a non-specialized nature costing over \$10,000. Specialized goods and services may be obtained through invitational tenders from the authority's supplier list.

The Auditor noted that the North Waterloo Housing Authority had entered into 18 contracts over \$10,000 in 1986, involving a total of \$800,000. Thirteen of the contracts, involving \$700,000 or 88% of the Authority's total contracts over \$10,000 (average value \$55,000), were awarded through invitational tender. The remaining five (average value \$20,000) were publicly tendered.

The Auditor found that seven of the invitational contracts, with a value of \$550,000, were for roofing work. There was some question as to whether this could be considered specialized work. The Auditor also noted that he had been informed that projects had not been publicly tendered in several of the instances in order to quickly utilize unused 1986 funds, on the advice of the regional office of the Ministry's Field Operations Branch. There was some evidence that this may have contributed to expenditures for particular services far higher than initial cost estimates by OHC staff.

The Ministry's Field Operations Branch supports the work of the local authorities through a network of six regional offices which seek to offer "one-window" service to OHC's various client groups. According to the Ministry's 1986 Annual Report, "These offices provide technical, financial, and administrative support to the 58 housing authorities and numerous





non-profit housing corporations so that the province's portfolio of assisted rental housing is operated efficiently and maintained properly."

In its response to the Auditor, OHC indicated that it would issue a directive to all housing authorities emphasizing the importance of adhering to OHC's tendering requirements, and that its Operations Review and Audit Branch would review OHC's tendering process during 1987-88.

In response to the Committee's questions, the Ministry outlined the circumstances regarding these tenders. Of the 13 invitational tenders, two of the largest, valued at \$304,000, were for roofing work which the Ministry felt was of a specialized nature, involving a polyurethane membrane, such that only nine firms in the area had the appropriate expertise and equipment. All nine firms had been invited to bid, and three bids were received on one tender, and two on another.

In the case of the other 11 contracts, valued at \$500,000, which had been let by invitational tender, the Ministry acknowledged that they were not specialized. The use of invitational tenders was attributed to the housing authority's wish to ensure that the work, which was all external, would be completed by the onset of winter.

The Ministry expressed concern about the Auditor's statement that he had been informed by housing authority staff that the invitational tenders had been used so as to spend "unused funds" by yearend. The Ministry described its capital expenditure planning system, which involves three-year plans in authorities other than Metro Toronto. Spending is tracked to ensure that, in cases of project delays, funds can be diverted to other priority projects.

The Ministry explained that in the case noted by the Auditor, the Ministry's southern regional office had recognized that certain maintenance projects planned for that year would be delayed, and had recommended that the North Waterloo Housing Authority bring forward certain priority projects planned for 1987. The Ministry conceded, however, that the housing authority's "desire to maximize maintenance work for that year was allowed to overshadow the need for advertised tender calls in some instances".



The Ministry also noted that the Auditor had been critical of the high cost of some of the work in relation to the Ministry's original estimates. It was stated that the work on these projects had been substantially increased with the approval of the Ministry, and that staff felt that the actual costs were reasonable for the work performed.

The Ministry noted that its new tendering guidelines had been issued. It was also noted that Ministry reviews had indicated that 96% of contracts over \$10,000 had been tendered on a public and advertised basis. In response to a Committee question, it was stated that the Ministry's internal audit branch was conducting a review of the Ministry's tendering process, that the field work was expected to be completed by the end of March, and that the audit report was to be issued by the end of May.

## Recommendations

### Follow-up by Provincial Auditor

The Committee notes the measures taken by Ontario Housing Corporation in response to the concerns identified by the Auditor and reviewed by the Committee:

- strengthening of administrative controls, prevention of cost overruns, and improved project management through the implementation of a new tendering system at the Metropolitan Toronto Housing Authority;
- reduction of the extremely high level of workers' compensation claims in the Metropolitan Toronto Housing Authority through:
  - agreement with the union to develop a modified work plan;
  - reorganization of its employee health and safety function; and
  - better liaison with the Workers' Compensation Board;
- more use of public tenders by the housing authorities through increased management emphasis on the importance of adhering to procurement procedures; and
- a review of OHC's tendering controls which the Ministry expected would be completed by May 1988.

The Committee is aware that the Provincial Auditor will be reviewing the impact of these measures during his follow-up work on this audit and his ongoing reviews of Ontario Housing Corporation. The Committee requests the Auditor to report to the Committee any concerns that he might identify in the course of this work.





### Management of Housing Projects

The Committee further notes that the Ministry is developing a management information system which is to be in place in 1989. The Committee recommends that this system have the capability to identify costs and budgets for individual projects. The Committee further recommends that the Ministry of Housing work with the Ministry of Government Services in an effort to ensure that information systems on government-owned buildings are compatible and comparable.

### Cost Information

The Committee notes the Ministry's statement that it presently conducts cost comparisons among the various housing authorities. The Committee requests that the Ministry provide it with an explanation of the system upon which its comparisons are based, together with copies of its most recent comparisons, including any comparisons among any regions or among projects within authorities, within 120 days of the tabling of this report.

### Workers' Compensation Claims

The Committee notes that the Ministry has taken measures to reduce the high levels of workers' compensation claims. The Committee recommends that the Ministry provide a report, within 120 days of the tabling of this report, setting out:

- progress on the development of a modified work plan, including measures for the rehabilitation of injured workers as well as the system by which workers are assigned lighter duties until recovered from their injuries;
- the most recent statistics, covering a period of at least one year previous, for workers' compensation claims and sick leave in each of the Metropolitan Toronto Housing Authority's six regions; and
- the status and activities of the health and safety committees, including information on the basis on which these are organized, which projects have health and safety committees and which do not, and any grievances which have been put forward in 1987 and 1988 by these committees.



Progress on Justice Committee Recommendations

The Committee notes the Ministry's statement that 88 of the 119 recommendations of the 1980 Report of the Standing Committee on the Administration of Justice have been implemented. The Committee recommends that the Ministry provide, within 120 days of the tabling of this report, a report identifying the status of each of the 119 recommendations.





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February 1988

Thursday, 25 February

2:00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor

Re: Section 5.4

Observations on Cost Overruns  
and Other Matters

From the Ministry of Housing:

Gardner Church  
Deputy Minister

Donald A. Bascombe  
Director  
Operations Review and Audit  
Branch

From the Ontario Housing Corporation:

Byron Hill  
Acting Executive Director  
Housing Field Operations

From the Metropolitan Toronto Housing  
Authority:

Kevin Gaul  
General Manager

From the Canadian Union of Public  
Employees:

George Mammoliti  
President of Local 767



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Summary of 1988 Reports

FIRST INTERIM REPORT, 1988

**Subjects:** The Provincial Auditor's 1987 Report, Section 4.8  
Weak Procedures and Controls, Health Insurance Program  
Ministry of Health

The Provincial Auditor's 1987 Report, Section 4.9  
Problems in Mental Health Care  
Ministry of Health

**Tabled:** May 26, 1988

**Summary:** On February 16, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of Health concerning the Provincial Auditor's findings of weaknesses in three computer systems which support the delivery of the Ontario Health Insurance Program (OHIP). The Auditor had concluded that the computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and had not kept pace with advances in computer system design. The Auditor had also found that large payments were being made for out-of-country treatment of psychiatric and addiction patients, and had identified basic errors in the operation of the system for payment of out-of-province claims.

The Committee recommended that the Ministry develop and implement a new computer system to overcome the weaknesses identified by the Auditor, and that in the interim it take all feasible measures to address the various deficiencies identified by the Auditor. The Committee also recommended that the Ministry work to ensure that Ontario patients receive suitable treatment within Ontario, and that the out-of-province claims system be enhanced to prevent the errors noted by the Auditor.

On February 17 and 18, the Committee questioned officials of the Ministry of Health regarding the Auditor's findings of shortcomings in the system to provide and manage mental health care in the province. The Auditor's investigation had identified some major concerns:

- deficiencies in the staffing, facilities, and utilization of the ten provincial psychiatric hospitals;





- inadequate management information systems; and
- serious inadequacies in the availability and coordination of housing alternatives and community support available to ex-psychiatric patients.

The Committee heard from the Ministry that a wide range of initiatives were underway to address these concerns. The Committee noted its intention to assess those initiatives through visits to a number of facilities in the fall of 1988, to recall the Ministry as necessary, and to report on progress in its final report for 1988.

The Committee recommended that the Ministry upgrade its management information systems, review its licensing requirements for homes for special care, and ensure adequate evaluation capabilities for its increased efforts in community mental health. The Committee also recommended that the Standing Committee on Social Development consider undertaking a comprehensive study of the housing and other community and mental health needs of ex-psychiatric patients, the adequacy of current and planned services, and options to overcome deficiencies.



## SPECIAL REPORT ON THE ESTIMATES PROCESS

**Subject:** The Provincial Auditor's 1987 Report, Sections 2.1 and 2.2  
Accountability of Government to the Legislature  
The Estimates Process – Maligned and Ineffective

**Tabled:** June 2, 1988

**Summary:** On April 14, 1988, the Standing Committee on Public Accounts reviewed the Auditor's concerns regarding the Estimates process in the Ontario Legislature, and his recommendations for reform of the process and strengthening of the accountability cycle. The Auditor had found a number of weaknesses in the Estimates process:

- procedural problems, including delays in review, inconsistencies in the level of scrutiny relative to expenditures, deviations from the planned schedule, and the inability to change items in the Estimates;
- deficient information on which to base scrutiny;
- pressures on the time and resources of members.

Linked to these problems, the Auditor found a lack of attention and commitment by members to the process. Noting the critical importance of the Estimates process to accountability, the Auditor recommended the establishment of a separate standing committee on Estimates, which would carry out in-depth scrutiny of a selected number of Estimates each year. Closing of the accountability loop would be achieved through subsequent review of those ministries by the Auditor and the Public Accounts Committee.

The Committee discussed these findings and recommendations, taking into account past concerns expressed by committees of the Legislature, and reform initiatives elsewhere. The Committee recommended that:

- a Standing Committee on the Estimates, chaired by a member of the Opposition, be established to conduct annual in-depth scrutiny of selected Ministry Estimates. The membership of the Estimates Committee was to include three members from the Public Accounts Committee, one from each party;
- six sets of Estimates per year be chosen for review, by all three parties, using a cycle of Official Opposition, Third Party, and Government Party, and that this be supplemented by a system of written questions to other ministries on matters of specific interest, and review of these other ministries where warranted;
- the Estimates Committee be given the power to recommend the reallocation of funding within each vote;
- the Estimates Committee, when established, give priority to the development of a schedule for completion of scrutiny, the review of the form and content of Estimates information, and the identification of necessary committee resources.





## SECOND INTERIM REPORT, 1988

**Subject:** The Provincial Auditor's 1987 Report, Section 4.7  
Improved Pollution Enforcement Procedures Required  
Ministry of Environment

**Tabled:** June 16, 1988

**Summary:** On February 22, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of the Environment on the Auditor's findings of weaknesses in pollution control procedures and operations, and deficiencies in administrative practices. The Auditor had found that the Ministry:

- had chosen not to independently verify data submitted under the Countdown Acid Rain program by contributors of acid rain emissions;
- was deficient in regard to follow-up of complaints and did too few self-initiated inspections;
- had been inactive in regard to a large number of companies discharging contaminants directly into Ontario's waterways, though it was seeking to address this through a proposed Municipal-Industrial Strategy for Abatement (MISA);
- had failed in several instances to comply with tendering procedures, and had not utilized its vehicles economically — echoing criticisms in earlier Auditor's Reports.

The Committee was informed that the Ministry had implemented an independent verification system for acid rain emissions, heard the Ministry's explanations that growth in the number of complaints and the demands of new environmental protection activities had placed strains on its complaint follow-up and inspection activities, and discussed progress on MISA. The Ministry also acknowledged weaknesses in its administrative practices.

The Committee recommended that the Ministry:

- provide a comprehensive response within 120 days of the tabling of the report, outlining its acid rain monitoring activities;
- develop a formal system and criteria to analyze and prioritize complaints, integrate its inspection activities into this system, and review the allocation of its staff, to ensure that an established minimum proportion of its resources are devoted to proactive environmental control activities; and
- give the highest priority to the implementation of MISA, and, in the interim, strengthen its enforcement activities using existing regulatory instruments.

The Committee also noted the Ministry's commitments to improve its administrative practices, and requested the Provincial Auditor to review performance in this area as part of his next review of the Ministry.



### THIRD INTERIM REPORT, 1988

**Subject:** The Provincial Auditor's 1987 Report, Section 5.2  
Operating Deficiencies, Liquor Control Board of Ontario

**Tabled:** June 29, 1988

**Summary:** On February 25, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of Consumer and Commercial Relations and the Liquor Control Board of Ontario on the Auditor's findings of various operating deficiencies at the LCBO. The LCBO has been the subject of scrutiny by the Public Accounts Committee and the Auditor every year since 1983. The Auditor's 1987 Report suggested that a number of the problems identified in the past had not been satisfactorily resolved at the time of his audit.

The Auditor reviewed liquor inventory levels and estimated that the LCBO could reduce its inventory by \$78 million, or 40% — a proportion comparable to that found in 1983. The Auditor also found that the LCBO's controls over its listing and delisting policies were inadequate. As well, the Auditor noted that the new, automated Durham warehouse "continues to be plagued with numerous operating problems". Finally, the Auditor identified overstaffing, such that scope existed to reduce payroll and benefits by an estimated 18% — \$27 million, out of a 1986 payroll of \$142 million.

In its hearing, the Committee was informed that the LCBO was in the midst of a major transition which was intended to modernize its operations and improve its efficiency. A major reorganization had occurred in November 1987 which had resulted in a number of vacancies at the senior management level, which were still being staffed at the time of the Committee's investigation. A number of the LCBO's policies and procedures were also being revised, including its listing and product policy, its distribution system, its performance measuring and monitoring system, its management information systems, and its staffing criteria. As well, new point-of-sale technology was being introduced to modernize the LCBO's operations.

The Committee heard that some of the specific deficiencies noted by the Auditor had been addressed: delisted stock had been disposed of, and improved efficiency had been achieved at the Durham warehouse. However, most of the initiatives were still in the planning and development stage at the time of the Committee's hearing, and were expected to be finalized in the six months following the hearing.

The Committee recommended that the LCBO submit an interim report within 120 days of the tabling of its Report, describing progress on the various initiatives, and that it provide a comprehensive report by March 31, 1989, on further progress and achievements. The Committee noted its intention to review the reports, and to recall the LCBO for questioning if the Committee deemed it necessary.





## FOURTH INTERIM REPORT

**Subject:** The Provincial Auditor's 1987 Report, Section 5.4  
Operating Concerns, Ontario Housing Corporation

**Tabled:** July 6, 1988

**Summary:** On February 25, 1988, the Public Accounts Committee reviewed the Auditor's findings of questionable operating practices at the Ontario Housing Corporation (OHC). The Auditor had identified several concerns in the course of his annual audit of OHC's operations:

- several of the Metropolitan Toronto Housing Authority's (MTHA) privately managed projects had experienced significant unauthorized cost overruns, and had incurred questionable expenditures which were subsequently investigated by the OHC, the Solicitor General, and the Ontario Provincial Police;
- maintenance staff of the MTHA had a level of workers' compensation claims in 1986 which was five times as high as the average for janitorial workers and in fact exceeded the level among the most hazardous occupations;
- one of the three housing authorities visited had awarded most of its 1986 contracts without public tender.

The Committee called for the Provincial Auditor to scrutinize the various measures which the Ministry was undertaking to address these concerns, in the course of his annual audits of the Ontario Housing Corporation. The Committee further recommended that:

- the management information system being developed by the Ministry have the capability to cost and budget for individual housing projects, and be compatible and comparable with related information systems at the Ministry of Government Services;
- the Ministry provide an explanation of its system for cost comparisons among housing authorities, and copies of the most recent comparisons among and within housing authorities;
- the Ministry provide a progress report on the development by the MTHA and the union of a modified work plan to reduce time lost to workers' compensation claims, including measures for rehabilitation as well as a system to assign workers to lighter duties until recovered;
- the Ministry also report the most recent statistics, covering at least one year previous, for workers' compensation claims and sick leave for each region of the MTHA, and describe the status, activities, and grievances lodged by the health and safety committees at MTHA housing projects;
- as well, the Ministry provide a status report on progress in implementing the 119 recommendations of the 1980 Report regarding housing of the Standing Committee on the Administration of Justice, given the Ministry's statement that 88 recommendations had been implemented.

All reports are to be provided within 120 days of the tabling of the Committee's report.









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# Standing Committee on Public Accounts

Fifth Interim Report  
1988



1st Session, 34th Parliament  
37 Elizabeth II





STANDING COMMITTEE ON  
PUBLIC ACCOUNTS



LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

COMITÉ PERMANENT SUR  
LES COMPTES PUBLICS

Queen's Park  
August 1988

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour to  
present its Report and commends it to the House.

A handwritten signature in cursive script, reading "Ed Philip".

Ed Philip, M.P.P.,  
Chairman.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP AS OF MONDAY, 23 NOVEMBER 1987

ED PHILIP  
Chairman

BILL BALLINGER

STEVEN OFFER

DOUG CARROTHERS

ALAN W. POPE

MIKE DIETSCH

GILLES POULIOT

JOAN FAWCETT

ROBERT W. RUNCIMAN

SHELLEY MARTEL

DAVID W. SMITH

---

Douglas Arnott  
Clerk of the Committee

Wendy MacDonald  
Research Officer



## PREFACE

During the first half of 1988, the Standing Committee on Public Accounts conducted investigations into twelve sections of the Provincial Auditor's 1987 Report. Its findings and recommendations on six of these sections have been outlined in earlier interim and special reports, summarized in Appendix C of this report. This Fifth Interim Report records the Committee's findings and recommendations regarding the remaining six sections of the Provincial Auditor's 1987 Report investigated by the Committee thus far.

Eleven of the twelve investigations led to recommendations, which in most cases included provision for follow-up by the Committee to assess progress by the ministries. It is the Committee's intention to carry out follow-up and further investigations as warranted later in 1988, and in 1989. A final report is expected to be completed at the end of 1988, updating the interim reports as required and containing the Committee's findings and recommendations on any further investigations undertaken in the fall of 1988. This approach marks a departure from past practice of issuing a single annual report at year end on the Committee's activities, and is expected to contribute to a stronger accountability cycle, through greater timeliness and increased scope for follow-up.

The Committee would like to thank the Provincial Auditor, Mr. Douglas Archer, and his staff for their unfailing assistance and cooperation. As well, the Committee wishes to express its appreciation and thanks to the Clerk of the Committee, Mr. Douglas Arnott, and the Research Officer, Ms Wendy MacDonald, for their excellent work on behalf of the Committee. The Committee also records its thanks to the public servants who appeared before the Committee, for their willingness to share information and to respond to the Committee's concerns. The Committee will continue to strive for a high level of effectiveness in fulfilling its mandate, through continued cooperation and shared effort during the remainder of 1988.



## SUMMARY OF RECOMMENDATIONS

### Ministry Internal Audit

#### Improvement in Structures and Systems

#1. The Committee commends the progress which has been made by the ministries and by Management Board in establishing the formal structures and systems of internal audit. The Committee feels that it is essential that these efforts continue. In particular, the Committee recommends that:

- Management Board place high priority on the implementation of its directive on transfer payments. The Committee notes that the Provincial Auditor and the Committee have long emphasized the need for greater accountability in this area. The Committee feels that it is important that any directives in this area enhance legislative accountability, and recommends that Management Board consult with the Provincial Auditor prior to finalizing its directive on transfer payments;
- the two ministries that have not maintained a complete listing of their audit universe develop such a listing immediately following the issuance of the directive on transfer payments;
- those ministries which have not formalized and documented the system by which they prioritize their audit universe and their audit plans carry out such documentation;
- Management Board continue to place priority on the development and issuance of its guide on value for money auditing;
- Management Board continue with its development of a series of audit guides on its directives; and
- Management Board give high priority to enhancing and supporting the work of the Ontario Public Service Internal Audit Council.

#### Upgrading of Audit Work and Practices

#2. The Committee recommends that Management Board supplement its management reviews through the development and implementation of a government-wide annual internal audit plan which combines the annual

audit plans of each ministry. This plan should include a listing and prioritization of the government's audit universe. It should report progress on the previous year's plan, including a comparative analysis of ministry performance, and should assess the government-wide allocation of human resources in light of the priorities of the overall audit universe. Ministries should be advised of their performance compared to the norm and compared to the standards which they should be achieving.

#3. The Committee recommends that Management Board provide, by March 31, 1989, a report setting out its views on the feasibility of a greater degree of centralization of the audit function, including its views on the following options:

- establishment of a central audit unit, with expertise in such areas as EDP auditing and value for money auditing, to serve all the ministries, and the role that such a group might play in enhancing career development for internal auditors;
- establishment of a single integrated personnel system for internal auditors, whereby they would be stationed in ministries, but would be recruited, deployed, classified, evaluated, compensated, trained, and developed through the central system; and
- complete centralization of the internal audit function, as is being done by jurisdictions such as Sweden and Australia.

The Committee looks forward to discussing this report with Management Board.

#### Better Management of Human Resources

#4. The Committee recommends that Management Board place high priority on completing its review of the need for additional audit resources. As part of this review, it is recommended that Management Board develop an inventory of the human resources of each ministry, including their qualifications and experience, and, based on this inventory, advise ministries of weaknesses in the quantity or qualifications of their human resources. It is further recommended that Management Board then take an active role in ensuring that measures are taken to overcome these weaknesses.

- #5. The Committee commends the increase in secondments and job mobility as a way to improve the qualifications and experience of audit staff while providing job enrichment and a more diversified career path, and feels that efforts in this area should be accorded high priority. The Committee recommends that Management Board make active use of its human resource inventory to identify opportunities for such career development movements, and that it strive to ensure that ministries use those opportunities.
- #6. The Committee further recommends that, in its study of options for greater centralization of the audit function, Management Board give priority to the potential of these options to improve the management, career opportunities, and motivation of internal audit staff.
- #7. The Committee also notes that the growing emphasis on value for money auditing calls for a variety of skills in addition to the accounting qualifications traditionally sought in auditors. In light of this trend, the Committee feels that the recruitment process should be directed to individuals with a range of qualifications, and that the training process should offer those individuals the opportunity to acquire any necessary accounting skills.

## Ministry of Correctional Services

### Improved Monitoring of Costs and Staffing

- #8. The Committee wishes to note its concern about the deficiencies and variations in monitoring of staffing levels and costs as identified by the Auditor. The Committee feels it is essential that Ontario's correctional facilities are operated in a cost-conscious and efficient way. As such, the Committee is encouraged to observe the Ministry's commitment during the hearing and in its response to the Auditor to such measures as:
- implementation of a modern management information system;
  - independent operational reviews, including staffing reviews;
  - documentation of the Ministry's monitoring of overstaffing;



- documentation of the Ministry's monitoring of variations in per diem costs;
- specialized reviews of functions in regional offices; and
- development of an integrated divisional/regional/institutional operational planning system.

The Committee feels that these measures hold the potential to reduce the problems noted by the Auditor. The Committee recommends that the Ministry submit a report to the Committee by March 31, 1989, outlining its progress on these matters, and notes its intention to recall the Ministry for further questioning if deemed necessary.

#### Measurement of Effectiveness

- #9. The Committee wishes to express its concern about the Ministry's limited efforts to measure the success of its rehabilitation and treatment programs. The Committee notes that the Ministry is developing a new offender information system, and recommends that the Ministry ensure that this system have the capability to track recidivism. The Committee further recommends that the Ministry monitor and analyze recidivism on an ongoing basis, taking into account such factors as the length of time the individual has spent in the community and the reasons for the individual's return, with a view to developing more effective treatments for the individual.
- #10. The Committee feels, in light of the recidivism rate and in light of the substantial funds being devoted to rehabilitation, that the Ministry should develop an evaluative research component for each of its rehabilitative programs, and that evaluations should be carried out not only at exit from custody but also, so far as possible, on a longer-term post-release basis. The Committee recommends that these evaluation components be in place by April 1, 1989.

#### Handling of Drug Occurrences

- #11. The Committee notes with concern the Auditor's finding of improper handling of drug occurrences in some facilities. The Committee recommends that the Ministry increase its efforts to ensure that its institutions comply with Ministry procedures.

- #5. The Committee commends the increase in secondments and job mobility as a way to improve the qualifications and experience of audit staff while providing job enrichment and a more diversified career path, and feels that efforts in this area should be accorded high priority. The Committee recommends that Management Board make active use of its human resource inventory to identify opportunities for such career development movements, and that it strive to ensure that ministries use those opportunities.
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#### Handling of Drug Occurrences

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## Ministry of Northern Development and Mines

#12. The Committee notes that the Ministry is undertaking a range of initiatives to address the concerns which the Auditor has identified and the Committee has reviewed:

- development of criteria to guide the selection process, in consultation with users and field staff (expected completion in October 1988);
- development of a project management, tracking, and costing system, through a consultant (expected completion in July 1988);
- ongoing upgrading of its technological capabilities so as to improve the efficiency and effectiveness of its geological activities;
- improved management of the Mining Recorder function;
- amendment of the Mining Act to allow correction of administrative errors so as not to penalize Ministry clients for administrative errors in interpretation (completed June 29, 1988); and
- development of a Green Paper on modernization and amendment of the Mining Act, including the rationalization of fees and the simplification of administration (expected to be ready for review and public consultation by the Standing Committee on Resources Development in the fall of 1988).

The Committee feels that these measures hold considerable potential to address its concerns. The Committee requests the Provincial Auditor to review the Ministry's progress on these initiatives during the remainder of fiscal year 1988-89, and to report any concerns which he may have to the Committee.

#13. It is the decision of the Committee that the Clerk of the Committee send a copy of this report to the Standing Committee on Resources Development, in the belief that it may be of interest to them in the course of their consideration of the upcoming Green Paper on proposed changes to the Mining Act. The Committee requests the Provincial Auditor or any staff he may wish to designate to appear before the Standing Committee on Resources Development to discuss his concerns, should the Standing Committee on Resources Development request his assistance.

## Ministry of Skills Development

### Funding Process

- #14. The Committee notes the measures taken by the Ministry to improve its cash management through the refinement of its funding process and the development of a monthly reporting and cash flow system. The Committee recommends that the Ministry continue its efforts to match its funding levels and cash flow to the needs and capacities of its field offices, based on consultation with those offices.

### Compliance with Program Guidelines

- #15. The Committee notes that the Ministry has clarified its guidelines and strengthened its monitoring to ensure that the field offices adhere to program guidelines regarding participant assessments, and verification and retention of eligibility data. The Committee recommends that the Ministry place high priority on ensuring that the program is delivered in compliance with guidelines, so that program funds are targeted to those individuals most in need of support.

### Evaluation of Program Success

- #16. The Committee wishes to note its concern about the potential for misleading information arising from the Ministry's past approach to measuring the success of the FUTURES program. As well, the Committee feels that the effectiveness of a program should be measured not only in terms of the impacts of the program on its clients, but more broadly by the extent to which the program is used by the total target population. As such, it is the Committee's view that the effects of the program can best be ascertained and the public can be most clearly informed if the measurement system clearly identifies:

- the eligible target population of the FUTURES program, including sub-categories of particular target groups such as northern, disabled, and visible minority youth;
- indicators of need within the overall target population and among selected sub-categories, such as unemployment rate, and educational attainment;



- utilization of the FUTURES program by the target population and by each of the sub-categories;
- among program clients, non-completions for all clients and for each of the sub-groups, and outcomes for those clients and sub-categories three months after quitting the program, using the following classifications: could not locate, positive, negative, and neutral (the Ministry should define what it means by each of those categories); and
- completions for all clients and for each of the sub-groups, and outcomes three months after leaving the program, using the same categories as for non-completions.

The Committee recommends that the Ministry consider this approach to measuring its target population and the impacts of the FUTURES program. The Committee further recommends that the Ministry give priority to a longitudinal study of the effects of its programs on youth.

## Ministry of the Solicitor General

### OPP Telecommunications System

#17. The Committee wishes to express its concern about the continuing delays and cost escalation of the OPP Telecommunications Project. The Committee notes the assurances of the Ministry that past difficulties have been overcome and that the project will be completed on time and on budget. The Committee requests the Provincial Auditor review the annual progress reports which the Ministry is required to submit to Management Board, including reports to date, and to report any concerns regarding costs and progress to the Committee.

### Staffing of Coroner Posts

#18. The Committee concurs with the Auditor's view that the use of full-time coroners in some areas of the province offers potential gains in economy and effectiveness. The Committee notes the Deputy Minister's statement that he was reviewing this recommendation and expected to finalize his position in the fall of 1988. In light of the fact that a change of deputy ministers has taken place in the Ministry, it is the decision of the Committee that the Clerk of the Committee write to

the Deputy Minister and remind him of his predecessor's commitment. The Committee recommends that the Deputy Minister inform the Committee of the results of his deliberations on this matter by December 31, 1988, and that the Deputy Minister further report to the Committee his views on the feasibility of a pilot project on full-time coroners, in a large metropolitan area.

#19. The Committee does not find the selection and appointment process for part-time coroners to be an appropriate approach to the staffing of specialized professional positions of substantial importance to the community. The Committee recommends that the Ministry review its selection and appointment process for part-time coroners, and provide a report to the Committee on its findings by December 31, 1988. The review should include the following matters:

- establishment of a job description for coroners;
- the establishment of an open professional selection process;
- the scope to recruit coroners from among professions other than the medical profession;
- the professional development and training needs of coroners, the extent of programs presently in place, and the scope for strengthened training;
- the establishment of a fixed term of appointment for coroners, and the Ministry's views on what time period might be appropriate; and
- the establishment of a system to review the competency of coroners, including formal channels for public expression of concerns regarding coroners' performance of their duties.

#### Computer System

#20. The Committee notes that the Ministry proceeded with the development of a computer system on the OPP mainframe despite the existence of a Management Board minute explicitly stating that the OPP computer was to be used only for police purposes. The Committee does not feel that the Ministry's desire to minimize delay justified contravening Management Board direction, and is of the view that the Ministry should have awaited formal approval before proceeding with its project.



General Matter

- #21. It is the decision of the Committee that the Clerk of the Committee send a copy of this report to the Standing Committee on the Administration of Justice, in the belief that it may be of interest to them should they decide to undertake consideration of any matters related to this report. The Committee requests the Provincial Auditor or any staff he may wish to designate to appear before the Standing Committee on the Administration of Justice to discuss his concerns, should the Standing Committee on the Administration of Justice request his assistance.

## **SUMMARY OF HEARINGS**

**Ministry Internal Audit Operations:  
Improvements Needed  
The Provincial Auditor's 1987 Report, Section 3.4**

### **Introduction**

On February 24, 1988, the Standing Committee on Public Accounts considered the Provincial Auditor's findings regarding weaknesses in the government's internal audit operations. The Provincial Auditor's review had been intended to determine:

- the progress made in addressing the deficiencies noted in the Auditor's first review of internal audit, in 1980; and
- the extent to which the Auditor could rely on the work of internal audit, based on the nature and quality of output.

The Auditor found that substantial progress had been made in the seven years since the previous review with respect to the establishment of formal structures, mandates, and planning systems. However, the Auditor found that the actual performance of the work still showed scope for improvement. Output was falling well short of plans, working paper files were deficient, a systems-based approach was seldom utilized, and weaknesses in reports were preventing them from achieving their potential impacts. The Auditor concluded that his Office could rely on the work performed by only 4 of the 15 ministries reviewed (up from one ministry in 1980).

The Auditor also noted some deficiencies in the management of audit human resources. Basic auditing skills needed to be upgraded, staff motivation was low, systems to assign, monitor and control staff time were deficient in a number of ministries, and evaluations of staff were deficient.

The Committee reviewed these concerns with officials of Management Board Secretariat, (hereafter referred to as Management Board), including the Secretary to the Board, the Executive Coordinator of the Management Policy Division, and the Audit Advisor. Substantial discussion was devoted to clarifying concerns which Management Board expressed on behalf of some directors of internal audit regarding the Provincial Auditor's review. Attention was also directed to measures being taken to improve the management and utilization of human resources in the audit area.

## Background and History

The objectives of internal audit are:

- to provide assurances to the management of the organization, and, indirectly via management, to central control agencies and external accountability bodies, on the integrity of financial systems and the information they contain;
- to make recommendations for improvement where warranted; and
- to review the economy and efficiency of the organization's operations and the systems in place to measure effectiveness.

A high level of effectiveness in internal audit achieves two important goals. It minimizes duplication of review and assessment by the external control agencies noted above. Even more importantly, it plays a key preventive role: it maximizes economy, efficiency, and effectiveness by ensuring that ministries have good financial and management control systems and by detecting and addressing problems early in time.

The importance of internal audit is reflected by the attention which the Provincial Auditor and other agencies have given it over the years. A brief chronology follows.

- **1970:** The Committee on Government Productivity recommended that the Provincial Auditor no longer be required to pre-audit, i.e. to ensure that proposed expenditures are within approved authorizations.
- **1972:** The Audit Act was amended to reflect this change, in consequence shifting this responsibility to the ministries.
- **1974:** The Treasury Division issued its Basic Statement on Accounting Policy, spelling out the responsibilities of the ministries in upgrading their financial control systems and internal audit functions.
- **1977:** Management Board Secretariat issued its Statement on Operational Review and Auditing, broadening the bounds of the work beyond the purely financial.
- **1978:** A number of amendments were made to the Audit Act, including the establishment of a value for money mandate for the Provincial Auditor. This formally defined the broadened scope of the audit function.
- **1980:** The Provincial Auditor conducted a review of the internal audit function in government, and found that, generally, internal audit was falling far short of its potential to contribute to management effectiveness. The internal audit function was found to be deficient in



terms of mandate, terms of reference, and the planning and reporting process. The Auditor found that in many cases neither his Office nor the senior management of the ministry could place reliance on the findings of internal audit. This situation was attributed not only to the individual ministries, but also to the lack of support by central agencies for the development of the internal audit function. (These findings are updated later in this report on an issue-by-issue basis.)

- **May 1980:** Management Board appointed a Task Force on Audit Policy to review the role of internal audit in the Ontario government.
- **December 1980:** The Task Force's Report was completed and its recommendations were accepted by Management Board. The Task Force recommended that internal audit branches have a comprehensive auditing mandate, and that there be substantial central agency support for the function. The Task Force also set out standards for the structure and organization of internal audit branches, and the way in which they perform their work. In general, the recommendations addressed the concerns identified by the Provincial Auditor.
- **1981:** Management Board issued a brochure and a leaflet on the internal audit function. It also approved a guideline adding two audit staff to each ministry, addressing a recommendation of its Task Force that the internal audit function receive 45-50 additional personnel government-wide.
- **May 1986:** Management Board issued a directive on internal auditing, supported by a set of guidelines for managers, which in large measure reflected the recommendations of the Auditor and the Task Force.
- **1987:** The Provincial Auditor reviewed the internal audit function to assess progress. The review covered 15 out of 21 audit branches, serving 20 out of 26 ministries and representing about 85% of the staff and expenditures of the internal audit community.

### **Substantial Improvement in Formal Structures and Systems**

The Auditor found that substantial improvements had occurred in the formal structure and organization of the audit function.

In 1980, the Auditor had found that few ministries had approved terms of reference, and those that did exist were frequently ambiguous, out-of-date, and showed little evidence of senior management involvement. By 1987, most ministries were found to have clearly written terms of reference which outlined the role of internal audit, the scope and frequency of internal audit activities, and reporting requirements. The Auditor also found that the audit branches had adequate organizational independence in all ministries reviewed, as they reported either to an audit committee or directly to the deputy minister.



In 1980, the Auditor had found that, "generally speaking, internal auditors have failed to develop an appropriate definition of the audit universe, (i.e. the organizations, systems, and activities to be audited), and have not had an adequate process for determining audit priorities." In 1987, the Auditor found that all but two of the branches reviewed maintained a complete listing of their audit universe. The Auditor noted, however, that certain major transfer payment recipients such as post-secondary educational institutions and hospitals were not included in this universe.

The Auditor further found that almost half the branches had formal systems to prioritize the components of their audit universe. The other branches indicated to the Auditor that they used this approach but had not documented it. The Auditor felt that documentation of the prioritization process would make the planning process more complete.

In the area of audit planning, the Auditor had found in 1980 that plans, if they existed at all, did not appear to be based on a ranking system and often directed disproportionate resources to small, low-risk activities. In 1987, the Auditor found that all but two of the branches had long-term audit plans, and that all the branches had annual plans. Those seven branches which had a formal system to prioritize their audit universe used it to plan their audits.

In a brief response to the Auditor, Management Board indicated that it was pleased to note the considerable progress reported in the operations of internal audit branches since 1980. It noted its contributions to these achievements through the development of a framework of management and professional practices for internal auditing. Management Board noted that this framework includes an audit policy, a manager's guide to auditing, methodology for audits, and, in conjunction with the Ontario Public Service Internal Auditors' Council, standards for professional practice.

Management Board provided further information to the Committee on these measures and other initiatives:

- In 1985, Management Board approved the establishment and funding of the Ontario Municipal Audit Bureau, responsible for conducting financial and compliance audits of provincial-municipal transfer payments on behalf of some 10 provincial ministries. The Bureau receives its policy direction from the Ontario Municipal Audit Council, a body established by Management Board with membership from most of the concerned ministries.

- Management Board is planning to issue a new directive on transfer payments accountability and a companion guideline that will provide the basis for auditing of transfer payments, including payments to hospitals and universities. The audits are to be done by the ministries, not the recipient organizations. This directive is to be submitted for approval in the spring of 1988 and is expected to be in place by the start of the 1989-90 fiscal year.
- In 1986, a section on internal audit was included in the new directives manual as one component of the revision of that manual. It was noted that the extent of delegation to deputy ministers depends to some extent on the capability and adequacy of the ministry's internal audit.
- Directives on various other issues have been developed and issued. In January 1988, Management Board had approved a directive on Management of Information Technology, which included a requirement that ministries perform audits of their information technology environment. It was noted that Management Board Secretariat is recommending a key role for internal audit in establishing an effective information security program within ministries.
- Generic audit guides are being developed as companion documents to Management Board directives on areas of administration. Two guides have been released, on advertising and creative communications and on supplies and equipment, and a third guide on employee expenses was being finalized at the time of the hearing. According to the statement which the Secretary of Management Board tabled, it is intended to develop guides for all of Management Board's directives and to issue them as a series.
- Management Board is also developing a generic guide to value for money auditing. A draft guide had been circulated to the internal audit community for comment.
- Management Board provides research and management support to the Ontario Public Service Internal Auditor's Council. As indicated in its response to the Auditor, Management Board had carried out a number of joint projects with the Council related to the upgrading of policies and practices. The Council also provides a vehicle for the dissemination of information on new methodologies and techniques. For example, a conference was being planned for May 1988 on new dimensions to improve reliability of internal audit.

The Committee inquired whether Management Board felt that the audit function was sufficiently centralized. In response, Management Board stated that considerable centralization of the audit function had occurred within individual ministries since 1980, at which time the audit function had often been dispersed throughout ministries. It was noted that the operational philosophy of the Ontario government is one of delegation and decentralization, with the deputy ministers being responsible for the operations of the ministry. Within this context, Management Board's role is to advise and support the ministries in the continuing development of internal audit, and to provide central coordination and liaison with external accountability bodies.



## Deficiencies in the Process of Internal Audit

Despite the improvements in formal structures and systems outlined above, the Auditor found that there was considerable scope for improvement in the practices and activities of the audit function. Many of the concerns expressed by the Auditor were very similar to those noted in his 1980 Report.

Although considerable improvement had occurred since 1980 in developing formal plans, 11 of the 15 branches were falling significantly short of achieving those plans. Many branches were taking over 10 years to scrutinize all of their ministry's activities. Reasons for not meeting plans included lack of appropriate staff, loss of existing staff to urgent and special projects, and inability to complete audits in the time planned. (The Auditor also found the monitoring of staff time to be deficient, an issue discussed further in this report's section on personnel issues.)

The Auditor felt that a decision was needed as to whether these delays in completing plans were acceptable, and, if not, whether further resources needed to be devoted to the audit function.

The Auditor reviewed audit working papers in the various audit branches and found that little if any improvement had occurred since 1980. A number of common deficiencies in working papers were noted:

- no evidence of planning by senior management of the objectives, nature, and extent of the assignment;
- no audit program outlining what work was to be done, making it difficult to relate the audit work done to the objectives of the project;
- considerable documentation in the files of questionable relevance and indeterminate source;
- lack of explanation of sampling techniques, rendering the results useless as their significance was unknown; and
- no evidence of review of working papers by audit management.

The Auditor indicated that his Office would be unable to rely on the work of internal audit unless these deficiencies were corrected.

Another finding by the Auditor was that internal audit branches generally did not use a systems-based approach for financial audits, although this is a

requirement of internal auditing standards and the Manual of the Office of the Treasury. That is to say, they failed to put their work into an overall framework and context which would diagnose any weak points in the overall system. This parallels the Auditor's findings in 1980, despite the establishment of the above-noted requirements since that time.

The Auditor also expressed concern that a number of audit reports on specific projects contained neither the audit objectives nor the conclusions, consisting merely of lengthy descriptions and various minor observations. Where reports did contain objectives, it was often difficult to identify conclusions. These findings on reporting were very similar to those of the 1980 review.

In its response to the Auditor, Management Board had indicated that it had discussed the Auditor's findings with a number of the directors of internal audit branches, and that some directors had expressed some specific concerns with the findings. The standards applied by the Provincial Auditor to working papers were felt by some directors to be not entirely appropriate for internal audit. It was thought that less rigid standards might be needed to accommodate non-audit personnel in value for money auditing. A more general concern was also expressed that the Auditor's review focussed solely on process, and did not give sufficient attention to the results of the work. Management Board noted that it had suggested to ministries that they discuss these concerns directly with the Auditor.

(According to the Committee's background research, the working paper standards applied by the Auditor were those issued by the Ontario Public Service Internal Auditors' Council. Management Board's Guidelines to its Directive on Internal Auditing require the audit manager to ensure that audit work conforms to these standards.)

The Committee asked Management Board whether its discussions with ministries had indicated that deputy ministers felt they could rely on the work of internal audit. In response, the Secretary to Management Board stated that deputy ministers had indicated very clearly that they had confidence in their internal audit branches. However, the Provincial Auditor noted, his audit had found that approximately half of the officials to whom the directors of internal audit report were "not totally satisfied with the quality and effectiveness of internal audit". The Auditor noted that these officials were not necessarily the deputy ministers.



The Committee questioned Management Board and the Auditor at some length in an effort to clarify the concerns which the internal audit community had expressed regarding the Auditor's conclusion that he could rely on the work of only 4 of 15 audit branches. In response, Management Board reiterated the points made in its response to the Auditor. After some discussion, it was established that the auditing standards which the Provincial Auditor had applied — those of the Institute of Internal Auditors — were not being challenged as unsuitable.

However, Management Board indicated that the standards were quite broad, and open to interpretation, and that some internal audit branches did not appear to have been entirely aware of the detailed criteria which the Provincial Auditor had applied in his review. In response to a question from the Committee, staff of the Office of the Provincial Auditor stated that at the beginning of the audit, the criteria had been laid out and discussed with every director of internal audit, and that they had concurred that the criteria were acceptable. Moreover, at the exit interviews with each of the directors, there had been general acceptance that the deficiencies noted by the Provincial Auditor were valid.

Further discussion suggested that the concern felt by the ministries regarding the Auditor's findings on reliance lay primarily in the fact that the internal audit branches had not been aware in detail of the quality of work that was required of them in order for the Provincial Auditor to place reliance on their work. It appeared that the Auditor's conclusion as to which ministries could and could not be relied upon had not been expected by some of the ministries. Management Board felt that it was essential that the ministries be aware of the Auditor's expectations as to the work on which he wished to place reliance and the detailed standards and criteria which the ministries had to meet in order for their work to be relied upon. Management Board felt that the Provincial Auditor should be able to rely on the work of internal audit to a much greater extent.

However, Management Board noted that the primary client of an internal audit branch is the deputy minister, and that the Provincial Auditor has a much broader role. As such, the external auditor's perspective, focus, and approach would not always be totally compatible with that of the internal auditor. Based on this, Management Board expressed the view that reliance by the Provincial Auditor on the work of internal audit was not always viable, and in fact might not be totally desirable.



The Provincial Auditor agreed that where internal audit branches carry out special assignments for the deputy minister or other senior management, it might not be possible to follow standards, and noted that it was unlikely that he would seek to rely on the work in such instances in any case. The work on which the Provincial Auditor would like to place reliance, in order to avoid duplication of effort, is the regular ongoing audit work of ministries as set out in their audit plans. In order for him to place reliance on the work, it is necessary that it be carried out in accordance with the standards laid down by the Institute of Internal Auditors, and that it be clearly documented. It was noted that it was possible that the audit work had complied with these standards, but that owing to the lack of documentation it had been impossible to assess whether it had done so.

The Committee inquired whether a peer review process might be useful in improving practices. Management Board indicated that the Internal Audit Council was considering this issue; however, it was not known when their deliberations would be completed.

The Committee noted Management Board's statement that ministries feel the Auditor should have looked at results as well as processes. It was asked whether an informal process exists in ministries wherein management deficiencies identified by internal audit are rectified in the course of the audit and not formally reported on to any great extent. Management Board agreed that this could occur.

The Committee noted that in the federal government, the Office of the Comptroller General plays an active role in monitoring internal audit performance and correcting problems. It was asked whether Management Board played a role in correcting problems, or whether this role was largely performed by external accountability bodies such as the Provincial Auditor and the Committee.

Management Board indicated that it did indeed play a role in establishing controls, through its directives, and in bringing about compliance with those directives. It was noted that until the previous year, each deputy minister had been required to report annually to Management Board on internal audit plans for the coming year and results of the audit plan from the past year. This offered the Board an opportunity to identify instances of non-compliance and to follow up on such instances.

This process has been supplanted by a system of ministry management reviews. This system will involve accountability sessions between the deputy minister and the Chairman of Management Board, dealing with a variety of topics including internal audit. It was felt that the sessions to be held in the spring would include discussions of the measures taken by deputy ministers in response to the findings of the Provincial Auditor regarding internal audit. Reports stemming from these reviews are made to the Premier, who appoints the deputy ministers. Management Board also noted that it is mandatory that deputy ministers rectify areas of non-compliance.

The Committee heard that in one ministry, only two audits had been done in three years. The Auditor attributed this to inadequate staff and to secondments of staff to other functions in the ministry. However, it was indicated, this situation has been resolved. A reorganization of the ministry's finance and administration area has occurred and a new deputy minister has been appointed.

The Committee asked whether there were any mechanisms in place to identify and track recurring weaknesses in the management of internal audit by individual deputy ministers. In response, the Provincial Auditor stated that in his meetings with deputy ministers, "if we felt that a given deputy had not shown the interest or understanding of internal audit in his past portfolios, we would certainly have brought that up." However, the Auditor stated, "we find that deputies generally in the Ontario government are well attuned to audit and recognize its importance." The Auditor indicated that he would be very surprised to find situations in future where internal audit was being neglected by deputy ministers.

The Auditor further noted that he did not believe the concerns over his findings to be widespread, in that 2 ministries of the 15 had voiced concerns. It was further noted that since the audit, the Provincial Auditor and his staff have had extensive discussions with the internal audit community, and general agreement has developed that the standards in question should be followed and the work should be documented.

The Committee emphasized that this was an absolutely critical area of government. A strong system of internal audit was felt to be essential not only to the economical and efficient management of government, but also to

the effective functioning of the legislative accountability system. The Committee stressed that it placed great importance on the resolution of these concerns. In response, Management Board indicated that it was the deputy minister's responsibility to achieve that, and Management Board's responsibility to ensure that it took place.

### **Deficiencies in Level, Training, and Utilization of Audit Staff**

The Committee also questioned Management Board about the Auditor's concerns regarding the qualifications and personnel management of the internal audit community.

The Auditor had found that the overall percentage of individuals with professional accounting designations was reasonable, but that this percentage varied significantly from ministry to ministry and was quite low in some cases. However, the Auditor also noted that a number of auditors held non-accounting qualifications which were also suitable in light of the growing importance of value for money auditing. As well, the Auditor noted that a number of auditors had extensive experience.

The Auditor had found that a training program developed in 1983 was comprehensive and would be useful to auditors at all levels. However, some weaknesses were noted in the use which ministries were making of this training. Variations in the level of professional development provided to auditors were noted both between ministries and within audit branches. Systematic procedures to identify training needs were often lacking.

The Auditor noted the widespread use of courses in value for money and EDP skills. In light of the review's findings on the quality of work being done, the Auditor felt more effort needed to be devoted to the upgrading of basic auditing skills such as working papers.

These findings on training are similar to those of the 1980 review, which noted that auditors attend a wide variety of courses, and observed, "The practical value of much of this training is questionable, first as to its relevance, secondly as to its effectiveness, thirdly as to the extent to which the newly-acquired knowledge and skills are applied on the job afterwards."



The Auditor had also found that the quality of audit work under review was not of the level that might have been expected given the training and experience of audit staff. The Auditor concluded that work performance was being impaired by low motivation of staff, which arose in part from:

- inadequate supervision and review of the audit process and working papers;
- limited career paths within specific audit branches and limited mobility within the government-wide audit community and into areas outside of audit; and
- limited scope to reward good performance and limited action to penalize poor performance.

As well, the Auditor had found that many branches exhibited deficiencies in their planning of the time needed to conduct projects, in their monitoring of the time actually required, and their comparison of the two. This circumstance also contributed to the problem noted by the Auditor of actual audit work taking far longer than planned.

Finally, the Auditor had noted a number of deficiencies in the staff evaluation process:

- some ministries were not conducting appraisals at all;
- others did evaluations, but not in a consistent way, creating potential for inequities;
- others did standardized evaluations, but used forms with limited applicability to the audit function; and
- evaluations often failed to plan courses of action for improvement of the individual's efficiency and effectiveness.

In response to a Committee question on the extent of problems with morale and motivation, Management Board felt that a significant improvement had occurred since 1980. It was felt that deputy ministers hold their respective audit branches in high esteem, recognize the importance of the branches to their own effectiveness, and place a great deal of reliance on their work. It was acknowledged that some individual auditors might not be motivated. However, the Secretary felt that, based on his discussions with other deputy ministers and with the directors of internal audit, that the audit community in general was motivated.

The Committee heard that staff resources had increased by 142 positions or 57% since 1980. However, this had occurred in the context of a substantial expansion of the scope and scale of audit work. The Committee inquired if staff resources were adequate, given the Auditor's concern that this might be a factor in the non-completion of audit plans by ministries. Management Board expressed a commitment to review the matter in consultation with the deputy ministers.

In response to a question on its role in upgrading audit staff in a ministry found to be weak in the area, Management Board stated that this was the responsibility of the deputy minister. However, if there is a shortfall, it was Management Board's responsibility to ensure that steps were taken to alleviate the lack of training and development given to auditors in a specific ministry. It was stated that "our major role is to ensure that there are training and development opportunities available for them and that the deputy ministers ensure that they take advantage of them."

The Committee asked about Management Board's role if any in developing career paths for auditors. Management Board described the Human Resources Secretariat's new program in this area, "Strategies for Renewal". All ministries are required to prepare a human resource plan embodying skills profiles and succession planning, which is submitted to Management Board through the Human Resources Secretariat. This program was described as still in its infancy, but was thought to offer potential for better career planning within ministries.

The Committee asked about the extent of movement between ministries, and into Crown agencies or the private sector, as a means of job enrichment. Management Board indicated that movement between ministries was taking place to a greater extent than in the past and that it was seeking to foster it. Secondments into Crown agencies and the private sector were more limited. It was felt that there was scope to take greater advantage of opportunities in this area.



## Recommendations

### Improvement in Structures and Systems

The Committee commends the progress which has been made by the ministries and by Management Board in establishing the formal structures and systems of internal audit. The Committee feels that it is essential that these efforts continue. In particular, the Committee recommends that:

- Management Board place high priority on the implementation of its directive on transfer payments. The Committee notes that the Provincial Auditor and the Committee have long emphasized the need for greater accountability in this area. The Committee feels that it is important that any directives in this area enhance legislative accountability, and recommends that Management Board consult with the Provincial Auditor prior to finalizing its directive on transfer payments;
- the two ministries that have not maintained a complete listing of their audit universe develop such a listing immediately following the issuance of the directive on transfer payments;
- those ministries which have not formalized and documented the system by which they prioritize their audit universe and their audit plans carry out such documentation;
- Management Board continue to place priority on the development and issuance of its guide on value for money auditing;
- Management Board continue with its development of a series of audit guides on its directives; and
- Management Board give high priority to enhancing and supporting the work of the Ontario Public Service Internal Audit Council.

### Upgrading of Audit Work and Practices

The Committee feels that an effective audit function is critical to achieving value for money and accountability in government. The Committee further feels that it is essential that the Provincial Auditor be able to place reliance on the ongoing audit work of ministries so as to avoid duplication of effort. As such, the Committee notes with concern the deficiencies in the work and practices of internal audit noted by the Provincial Auditor. The Committee feels that the continued existence of these deficiencies since the Auditor's first review in 1980 demonstrates the need for a strengthened monitoring and corrective capability, and suggests that there may be scope for greater centralization of the audit function.

It is noted that in the past deputy ministers were required to report to Management Board annually on their audit plans and performance, and that this has now been incorporated into a broader annual management review. The Auditor's findings demonstrate that the annual review of audit had not been fully effective in bringing about acceptable audit practices. Nonetheless the Committee is concerned that the central review of internal audit has been reduced further with its incorporation into general management reviews.

The Committee recommends that Management Board supplement its management reviews through the development and implementation of a government-wide annual internal audit plan which combines the annual audit plans of each ministry. This plan should include a listing and prioritization of the government's audit universe. It should report progress on the previous year's plan, including a comparative analysis of ministry performance, and should assess the government-wide allocation of human resources in light of the priorities of the overall audit universe. Ministries should be advised of their performance compared to the norm and compared to the standards which they should be achieving.

The Committee also notes that other jurisdictions have centralized their audit functions to varying degrees, and feels that this offers the potential to facilitate uniformity of standards, upgrade the quality of audit work, and improve the management and utilization of human resources.

The Committee recommends that Management Board provide, by March 31, 1989, a report setting out its views on the feasibility of a greater degree of centralization of the audit function, including its views on the following options:

- establishment of a central audit unit, with expertise in such areas as EDP auditing and value for money auditing, to serve all the ministries, and the role that such a group might play in enhancing career development for internal auditors;
- establishment of a single integrated personnel system for internal auditors, whereby they would be stationed in ministries, but would be recruited, deployed, classified, evaluated, compensated, trained, and developed through the central system; and
- complete centralization of the internal audit function, as is being done by jurisdictions such as Sweden and Australia.

The Committee looks forward to discussing this report with Management Board.

### Better Management of Human Resources

The Committee notes with concern the deficiencies in management of human resources in the audit area as identified by the Auditor, and the low motivation of many staff in this area. The Committee recommends that Management Board place high priority on completing its review of the need for additional audit resources. As part of this review, it is recommended that Management Board develop an inventory of the human resources of each ministry, including their qualifications and experience, and, based on this inventory, advise ministries of weaknesses in the quantity or qualifications of their human resources. It is further recommended that Management Board then take an active role in ensuring that measures are taken to overcome these weaknesses.

The Committee commends the increase in secondments and job mobility as a way to improve the qualifications and experience of audit staff while providing job enrichment and a more diversified career path, and feels that efforts in this area should be accorded high priority. The Committee recommends that Management Board make active use of its human resource inventory to identify opportunities for such career development movements, and that it strive to ensure that ministries use those opportunities.

The Committee further recommends that, in its study of options for greater centralization of the audit function, Management Board give priority to the potential of these options to improve the management, career opportunities, and motivation of internal audit staff.

The Committee also notes that the growing emphasis on value for money auditing calls for a variety of skills in addition to the accounting qualifications traditionally sought in auditors. In light of this trend, the Committee feels that the recruitment process should be directed to individuals with a range of qualifications, and that the training process should offer those individuals the opportunity to acquire any necessary accounting skills.



**Ministry of Colleges and Universities:  
Additional Monitoring and Verification Required,  
Ontario Student Assistance Program  
The Provincial Auditor's 1987 Report, Section 4.4**

## **Introduction**

On April 21, 1988, the Standing Committee on Public Accounts reviewed the Auditor's findings regarding the Ontario Student Assistance Program (OSAP). OSAP in its present form was established in 1978, and is administered by the Student Awards Branch of the Ministry of Colleges and Universities. In the student year 1986-87, OSAP provided \$391.5 million to 108,547 students through a mix of grants and loans.

OSAP is made up of three major components; Ontario Study Grants, Canada Student Loans, and Ontario Student Loans, and three other smaller components which are directed to students with special financial needs. The Auditor's review focussed on Ontario Study Grants and Ontario Student Loans, and examined whether:

- grants and loans were processed by the Ministry in accordance with established procedures; and
- financial information reported on student applications was adequately verified.

The Auditor found that Ministry processing of grants and loans was in accordance with established procedures, and that verification of students' parental income was being performed adequately. However, the Auditor had concerns with respect to the adequacy of monitoring of the Financial Aid Offices of the educational institutions, and the verification of other types of student information on financial need.

In 1985-86, the Ontario Student Loans also paid out \$8.6 million in defaulted loans and \$5.8 million in interest on outstanding loans. In 1986-87, \$7.2 million was paid to banks on defaulted loans.

The Committee reviewed these concerns with officials of the Ministry of Colleges and Universities, including the Deputy Ministry, the Director of the Student Awards Branch, and the Manager of Verification, Student Awards Branch. The Ministry described the measures it had taken in response to the Auditor's concerns.



## **Inadequate Controls over Processing and Payment of Grants**

The process for processing and payment of OSAP grants and loans begins when students apply for assistance through the Financial Aid Offices at the various educational institutions. Those Offices then review the applications, make decisions about entitlement for various expenses, and forward the applications to the Ministry for processing. The Ministry subsequently sends the grant cheques and loan authorization forms to the Financial Aid Offices for distribution to the students. Students then arrange directly with banks for their loans. The Financial Aid Offices then monitor the student's circumstances throughout the year and take action if there are any changes affecting eligibility for assistance.

The Auditor found that processing and payment of grants and loans by the Ministry itself was carried out in accordance with accepted procedures. However, concerns were expressed about the financial aid operations at the various colleges and universities.

### **Prevention of Student Fraud**

The Auditor reviewed 27 cases where students had fraudulently received aid. Fourteen of these — over half — could have been prevented had there been stronger controls in such areas as monitoring of academic progress and validation of student identity. The Ministry has increased its requirements since the time at which the frauds occurred: students are now required to present three pieces of identification prior to receiving grant cheques, and Financial Aid Officers are required to monitor students to ensure that they are actually attending university. The Auditor recommended that the Ministry take steps to periodically review the financial aid operations at the various colleges and universities.

In its response to the Auditor, the Ministry stated, "While the Financial Aid Offices are expected to follow ministry policies and guidelines, the ministry does not direct the operations of these offices." The Ministry indicated that it was already conducting regular "procedural audits" of the Financial Aid Offices, and that these audits would now include investigation of whether the Offices were complying with the new requirements regarding proof of identification and monitoring of academic progress.

In response to the Committee's questions, the Ministry provided further information on its new requirements. Students are now required to present their social insurance card in order to receive their student assistance. The Ministry indicated that initially, students had expressed some concern about this requirement since they were unaccustomed to it, but that it was eventually well accepted. The Ministry also noted that in July 1986, a clear and explicit definition of satisfactory academic progress had been provided to all institutions to ensure consistency in the administration of assistance. It was felt that these measures would be effective in addressing the concerns noted by the Auditor.

The Ministry noted that its procedural audits of the institutions' financial aid offices now include a review of the identification required from the student before the release of assistance. A list of the institutions which the Ministry had audited during the previous two years was provided to the Committee as an appendix to the Deputy Minister's opening remarks.

The Committee asked about the Ministry's definition of fraud. The Ministry stated that the cases of fraud noted by the Auditor had involved Criminal Code offences, and represented the total number of frauds at that time under police investigation. The Ministry indicated that there was a spectrum of misrepresentation, ranging from error to deliberate and aforethought criminal fraud. One case noted by the Auditor had involved two individuals impersonating about 60 individuals through forging of high school transcripts and thus defrauding the program of \$175,000.

It was noted that in the previous year, the Ministry had investigated some 349 cases for possible fraud and had referred approximately 30 to the police for further investigation. The Ministry observed that since fraud is a criminal offence and leads to a criminal record, it is necessary to be careful, and that only really blatant cases are referred to the police. As such, the Ministry acknowledged that it was possible that these cases represented only the tip of the iceberg.

The Ministry indicated that although it attempted to administer the program in an economical manner for the taxpayer, it was necessary to balance this with the other objectives of the program: to provide aid to students who would otherwise be unable to obtain a post-secondary education, and to

provide that aid in an efficient and timely fashion. It was noted that additional controls must be assessed prior to implementation to ascertain the extent to which they deter needy students from seeking aid and the delays which they impose on the provision of aid. The Ministry felt that "to expand our procedures beyond what is presently in place would only impose severe restrictions on the distribution of funds and inconvenience students unnecessarily."

### Segregation of Duties at University Aid Offices

The Committee questioned the Ministry about the Auditor's finding that the potential existed for officers of the educational institutions to fraudulently obtain grants for themselves. This arose from the fact that, at the time of the audit, the Financial Aid Officer at each institution was responsible for both processing of the application and subsequent distribution of cheques, and hence was in a position to submit false applications. The Auditor recommended that adequate segregation of duties be maintained.

In its response to the Auditor, the Ministry had agreed with the Auditor's recommendation that there should be segregation of the duties of processing applications, on the one hand, and distributing the ensuing cheques, on the other, and had indicated that measures had been taken promptly to implement the recommendation.

The Ministry provided the Committee with an update on progress. Upon receiving the Auditor's recommendation, the Deputy Minister had written to all the institutions and requested them to provide assurances through their auditors that proper segregation of duties was in place. At the time of the hearing, 41 out of 50 institutions had responded with written assurances from their auditors that proper controls and procedures were in place or were being implemented. The remaining institutions had been contacted by the Ministry, and had reported that the matter was being considered by internal or external auditors.

### **Improved Verification of Student Information on Need Required**

The Committee questioned the Ministry about the Auditor's findings regarding its verification procedures. The Auditor had found that the Ministry did take



adequate steps to verify parental income, a major component in determining aid. This process had identified overpayments of some \$3 million a year in 1983-84 and 1984-85, or about 2.7% of total grants. However, the Auditor expressed some concern about the limited verification of other information related to students' financial needs.

### Verification of Student Income

The Auditor had noted that the Ministry has only recently begun to verify students' income by checking with Revenue Canada. In its response to the Auditor, the Ministry had noted that, after conducting its test audit in 1986-87 of checking students' income with Revenue Canada, it has established a permanent comprehensive system whereby all independent students are reviewed in this way.

The Ministry informed the Committee that this system had been expanded to include all students rather than just independent students. Prior to using any information from Revenue Canada, the Ministry obtains the permission of the student in writing on the application form. It was noted that the review of independent students had found that 46% of single independent students had income discrepancies of more than \$1,000. However, the Ministry emphasized that these discrepancies had been estimated by the Ministry based on two different sources of information: the student's application, stating income information for the school year, and Revenue Canada's information, covering two tax years. Since these did not match, it was the Ministry's view that the discrepancies could likely be explained in most situations.

The Ministry noted that following up on these discrepancies renders this verification process very labour-intensive, as each student must be contacted and questioned as to the amount of income earned in each quarter of the year. It was stated that the Ministry intends to approach Management Board to request additional staff to carry out this work.

The Ministry seeks to carry out its verification activities on a cost-recovery basis, but has not yet ascertained the break-even point for this particular control. However, the Ministry felt that the control was worthwhile. It was also noted that the Ministry takes the deterrent effect of controls into account when conducting or prioritizing its verification activities.



### Under-Reporting of Market Value of Parental Homes

The Committee questioned the Ministry regarding the Auditor's finding that it generally did not verify the market value of parents' houses reported by students. A sample by the Auditor had shown that market values were understated in about 70% of the cases. The Auditor had recommended that the accuracy of market values of parental houses reported by students be periodically verified.

In its response to the Auditor, the Ministry had indicated that it checks market value of homes as a part of investigations into individual questionable applications, and that it was reviewing the feasibility of establishing an automated system to check parental home values for all OSAP applications.

The Ministry described its efforts to the Committee. Initially, it had done a pilot project with a private sector firm. The Ministry had found that each query had cost some \$7 and that the information received was not entirely satisfactory. The Ministry had then sought to obtain market values for homes through the Ministry of Revenue's data base on assessment values, OASYS. This had proven overly complex.

The Ministry felt that its current approach had more promise. The 1988-89 OSAP application has been changed to require students with a principal residence to indicate the year of purchase, the purchase price, and the postal code. The Ministry is testing an approach through the Canadian Real Estate Association whereby general information is obtained on market values for areas based on the postal code. The information submitted by the student is then assessed in terms of price increases since the time of purchase and current market values. The Ministry observed that this process was complex and difficult.

The Committee asked the Ministry about its policy on assessment of certain assets. Concern was expressed that the gross value rather than the net value of farm assets was being used. In response, the Ministry indicated that it always took the net value of all assets. However, it was noted that there might be instances where the net asset value of a farm might be high but the debt load might also be so high as to place pressure on cash flow, thus limiting the parents' ability to contribute to the student's education. The Ministry stated that there was provision for individual review of such cases.

Concern was also expressed that the recent escalation of housing values in some areas of the province might prevent students from lower-income families from receiving assistance due to the net worth of their parents' houses. The Ministry agreed that there might well be cases where homeowners were not in a position to liquidate their assets in that their incomes would be too low to carry a remortgage. The Ministry stated that although there was not a formal appeal process, there was provision for review in such cases. The question used as a basic criterion in such instances is whether the student would be able to attend school without the assistance. The Ministry indicated that there had been some requests for review arising from such cases, but that the number had been modest.

#### Non-Reporting of Students' Cars

The Committee questioned the Ministry about the Auditor's observation that it did not have a system to check with the Ministry of Transportation whether students actually owned cars worth over \$1,000. A sample by the Auditor had found that a number of students not reporting cars actually owned cars worth over \$1,000, suggesting that this area merited further investigation. The Auditor had recommended that periodic reviews be carried out to assess ownership and market value of cars.

In its response to the Auditor, the Ministry had stated that it checks for car ownership as a part of investigations of questionable applications. The Ministry made a commitment to discuss with the Ministry of Transportation the feasibility of setting up an automated system to check car ownership.

In response to the Committee's questions, the Ministry stated that these discussions were still in progress. Some obstacles had been experienced with access to the information; however, these had been overcome with the passing of the Freedom of Information and Protection of Privacy Act. The Ministry of Transportation's information requirements for its automated search were being identified at the time of the hearing. It was further noted that the 1988-89 OSAP application form has been revised to require students with cars to report the year, make and model, and number of cylinders. This was expected to deter non-reporting of cars or under-reporting of value.



The Committee observed that there was some controversy as to whether car ownership was appropriate for students being assisted by the program. It was noted that single parents seeking social assistance are not allowed to have a car unless they can prove substantial need. In response, the Ministry noted that a number of educational institutions are in areas lacking extensive public transit, and that it always seeks to establish whether the car is required by the student in order to obtain his or her education.

### **Loan Defaults and Recoveries**

The Committee also raised the issue of defaults on student loans. The Auditor had observed in the descriptive Commentary at the beginning of his report that from 1978 to 1986, some \$26 million was paid out by the Ministry for defaulted student loans. Of this sum, \$4 million had been recovered at March 31, 1986, and \$3 million had been written off by the Ministry. Recovery of these payments from the students is initially attempted by the Ministry, then turned over to Central Collection Services of the Ministry of Government Services.

This observation by the Auditor received substantial media coverage, suggesting strong public interest in the area. The Committee's research indicated that in 1986-87, a further \$7.2 million was paid out for defaulted loans, and a further \$600,000 was written off as uncollectable. As such, cumulative defaulted loans at March 31, 1987, were \$33.4 million, and write-offs were \$3.6 million. Taking recoveries into account, some \$25 million remains in default.

The research indicated that loan defaults rose steadily both in absolute numbers and as a proportion of all loans, up to the end of 1985-86. In 1986-87, the growth rate in the number of loan defaults levelled off, and the average value of defaulted loans dropped substantially. The statistics suggest that OSAP is moving towards a steady state of utilization in terms of the number of new loans negotiated and the number of loans coming due for repayment.

The Committee asked whether the Ministry had considered such measures as turning collections over to such bodies as student associations, who would

retain some share of the recoveries. It was felt that this might render the debt more personal than if it is owed to government, thus creating a greater sense of obligation to repay. The Ministry felt that care would have to be taken to prevent this from becoming a roundabout way to contribute to student associations.

Generally, the Ministry felt, those debts which were uncollectable were usually so due to circumstances beyond the control of the student, such as illness or family circumstances. It was noted that debts are written off only after a long period where the student has the opportunity to repay and after a variety of attempts to accommodate the person's ability to repay even modest sums. The Ministry was optimistic that the \$23 million still in default would eventually be recovered.

### **Conclusion**

Following the Committee's questioning, the Provincial Auditor observed, "We, as an office, recognize the difficulty of administering this type of program, to strike a balance between being too tough and too lenient. From an audit standpoint, we are quite satisfied with the additional measures the Ministry has indicated it is taking. In summary, we feel our comments have been adequately addressed."

The Committee agreed that there was a consensus that the monitoring of compliance had to be done judiciously and very closely, and expressed its satisfaction with the Ministry's efforts.



**Ministry of Correctional Services:  
Improved Administration of Institutions Required  
The Provincial Auditor's 1987 Report, Section 4.5**

## **Introduction**

On February 24, 1988, the Standing Committee on Public Accounts reviewed the Auditor's findings regarding scope for operational improvements at the Ministry of Correctional Services. The Auditor had reviewed the Institutional Services Activity of the Ministry of Correctional Services to assess whether:

- management had adequate processes to ensure institutions were providing cost-effective levels of service throughout the province; and
- management was measuring its success in achieving its objectives of protecting society from crime and motivating inmates toward positive personal change.

The Auditor had found that overall monitoring needed to be strengthened to ensure maximum cost effectiveness. Inadequacies were identified in the Ministry's systems both at the regional level and at the head office to identify, compare, prioritize, and address inconsistencies in the quality of facilities, programs, and operations among its institutions. As well, the Auditor found that the Ministry was making only a limited attempt to measure the effectiveness of its institutional activities, particularly with respect to rehabilitation. Finally, the Auditor found weaknesses in the enforcement of the Ministry's Standards and Procedures Manual regarding handling of drug occurrences at institutions.

The Ministry's objectives include:

- the provision of custody and community supervision to persons as directed by the courts;
- the establishment of an institutional climate and programs which assist inmates in making positive personal and social adjustments; and
- the development and delivery of programs for the prevention of crime.

Although the ministry's correctional facilities account for the bulk of its staff and expenditures, in fact only a small proportion of offenders -- some 15% --

are serving their sentences in facilities. The balance receive community supervision by probation and parole personnel. The Ministry has a highly decentralized structure. Its programs and facilities are administered by a network of five regional offices throughout the province. Financial, policy, and administrative support is provided by the central office.

The Auditor's 1987 review focussed on the efficiency of operations and on the adequacy of measures to assess the effectiveness of the Ministry's Institutional Services Activity, i.e. its operation of its 48 jails, correctional centres, detention centres, and youth facilities.

The Committee discussed the Auditor's findings with officials of the Ministry of Correctional Services, including the Deputy Minister and the senior medical advisor. The Ministry described its initiatives to improve its monitoring, and discussed the difficulties which it faced in attempting to evaluate the effectiveness of its activities.

#### **Improved Monitoring of Operations Required**

At March 31, 1986, the Ministry's 48 institutional facilities had a capacity of 7,621 and a staff of 4560.5. The facilities fall into the following categories:

- **10 correctional centres:** long-stay institutions, mostly minimum or medium security, for offenders serving sentences of 124 days to two years. Adult facilities range in capacity from 95 to 568 inmates, have a total capacity of 2,596, and have 1,633 staff.
- **27 jails:** small maximum-security (cell accommodation) local facilities mostly having a capacity of less than 100, with a few larger facilities. The 27 jails have a total adult capacity of 2,221, and have 1,218 staff. The jails, in conjunction with the detention centres, provide custody for persons who are:
  - temporary or transient inmates;
  - remanded for court appearances or other judicial proceedings;
  - awaiting transfer to other institutions; or
  - serving sentences of less than 124 days.
- **9 detention centres:** large maximum-security regional facilities serving the same purpose as jails. They range in adult capacity from 102 to 412 inmates, have a total capacity of 2,253, and have 1,263 staff.

- **2 youth-only facilities:** these are in addition to 14 separate young offender units at the above-noted adult facilities. The two youth-only facilities have a total capacity of 92 youth. The 1986 Annual Report gives staff data for one of the centres (133 staff). The young offender facilities within adult facilities range in size from 8 to 120, have a total capacity of 447, and have 304.5 staff.

The Auditor reviewed the Ministry's records and practices and visited seven facilities, one adult-only, five serving both adults and young offenders and one a youth-only facility, to assess whether the Ministry's management processes were adequate to ensure cost-effective levels of service. The Auditor found that these facilities generally operated within budget, but felt that improved monitoring offered scope for greater cost-effectiveness.

The Ministry informed the Committee that it was beginning to take a more systematic and comprehensive approach to monitoring than in the past. Two general initiatives were outlined:

- The Ministry is developing a \$26 million computer package which is expected to be ready in 1989. It was noted that the present system is antiquated, and is based on a batch processing system which leads to a 45-day delay in obtaining cost information. The new system will combine an offender information system, a financial management information system, and a personnel information system.
- In April 1986, the Ministry reorganized its inspection and audit function, and instituted an operational review. Prior to that time, according to the Ministry, reviews had been done in a hit-or-miss fashion. The new approach involves reviews on a three year cycle, which incorporate a staffing review, an audit, an inspection of the facility, a security review, an operational review, and a management practices review.

#### Staffing Reviews Required

The Auditor noted that, of the seven institutions visited, only two of the adult facilities had documentation to support their staffing levels. Of the young offender facilities, only the youth-only facility had a staffing model. The Auditor recommended that independent reviews be conducted on all institutions to identify staffing requirements, and that staffing standards be developed based on the findings of these studies.

In its response to the Auditor, the Ministry agreed that staffing reviews should be carried out ministry-wide, and noted that its own operational reviews had also identified this issue. The Ministry indicated that it would have the



capability to do this on a centralized basis using specific criteria, and noted that during the past year, staffing reviews of varying scope had been carried out at 19 of the 48 institutions.

In response to the Committee's questions, the Ministry provided an update on these activities. It was explained that owing to the differences in facilities, such as the security level, the layout, and the types of units (male, female, youth) it was not possible to establish staffing levels in terms of the number of inmates. The Ministry discussed these differences at length and gave a number of examples.

In light of these differences, the Ministry conducts an analysis of each institution in terms of the number of posts, taking the above and other factors into account. The reviews are conducted by teams made up of Ministry staff external to the institution and the region under review, and form part of the institution's general operational review noted earlier in this report. The teams include a superintendent of a facility in another region, someone from the Ministry's central office, and someone from the Ministry's operational review and audit branch.

It was noted that formerly, staffing reviews had been done by the region concerned. This was not felt to be an appropriate approach, and hence the independent staffing reviews were begun in the fall of 1986, starting with the 10 largest correction centres and the 10 largest detention centres. At the time of the hearing, reviews of 24 institutions had been completed. The Ministry indicated that it plans to review all the remaining institutions as part of a three year cycle which will be completed in the fall of 1989. Although the Ministry did not outline any detailed findings, it was indicated that some of the reviews had found scope for changes to staffing.

The Committee asked what contribution the Ministry's new computer system would make to the staffing reviews. The Ministry stated that it would store the findings of the reviews, and would monitor actual staffing during each month. However, the Ministry stated, "the computer would not be able to model staffing models because our institutions are all so different." Comparisons were felt to be impossible.

In his report, the Auditor had further noted that the Ministry's budgeting process had no mechanism to identify potential overstaffing. In its response



to the Auditor, the Ministry had stated that "monitoring of areas of overstaffing is going on" by both the regional offices and the divisional management committee, but that this monitoring was undocumented. However, the Ministry indicated, "procedures can be implemented to ensure that records are maintained." The Ministry felt that its new computer system for human resources management would be of great assistance in this process.

### Large Variations in Per Diem Inmate Costs

In his report, the Auditor had noted that the 1986 daily inmate costs, as calculated by the Ministry, ranged widely:

- \$64 – \$266 for jails;
- \$65 – \$86 for detention centres;
- \$56 – \$145 for correctional centres.

The Auditor had found no indication of any effort by the Ministry to identify the reasons for these differences or to take corrective action. The Auditor felt that senior management should devote more effort to monitoring operational costs and comparing them within the system and with other jurisdictions, in order to identify opportunities for greater cost-effectiveness. The Auditor further noted significant variations in the extent of monitoring among regions, and felt that this could prolong performance problems at some institutions.

In its response to the Auditor, the Ministry had indicated that a wide range of factors affected daily inmate costs and gave a number of examples. It was stated that senior management regularly reviewed per diems, taking these factors into account, and felt that the per diems were fair. However, the Ministry agreed that there had not been any documentation of this process, and indicated that in future, the minutes of management meetings would document such discussions. The Ministry also noted a number of examples of cost efficiencies and corrective action at specific facilities.

As well, the Ministry indicated that "we have already recognized [variations between regions in monitoring] as an issue requiring attention," and noted that it was beginning to be addressed through specialized reviews now being

conducted, such as the role of regional business and financial administrators. The Ministry further noted that monitoring would increase significantly in future, since the Ministry's new planning system involved the development of a divisional operational plan, regional operational plans, and institutional operating plans.

In response to the Committee's questions, the Ministry noted the many differences in its facilities which led to variations in per diem costs, and gave a number of specific examples. The Committee asked about the impact of occupancy rates on per diem costs. The Ministry indicated that the impact varied, depending on the circumstances of the facility. Fixed costs tended to be fairly high, so that lower occupancy rates generally did not produce a corresponding drop in per diem rates, unless it was actually possible to close down a section of a facility and redeploy staff elsewhere. Variations were also noted in the complexity of the facilities, in that facilities with male, female, and youth units are felt to be like three institutions in one. As well, differences were noted in the extent to which the facilities are self-sufficient in areas such as food production and inmate work on cooking and cleaning.

The Committee observed that other ministries face similar challenges, in terms of major variations between facilities, programs, functions, and client groups, and in terms of limited control over the use of facilities and services by clients. It was felt that other ministries appeared to be able to meet these challenges.

The Committee asked about the potential of alternative, non-institutional approaches to address the problems of high utilization levels and high costs in the institutions. The Ministry noted that Cabinet had approved a directive in 1987, requiring more extensive use of community-based approaches. The Ministry described its Community Resource Centres, which provide open custody as an alternative to institutional custody or during the final weeks of an offender's sentence. It was noted that the cost of the CRCs ranges from \$40 to \$80 a day, depending on the level of security.

The Committee asked about the impact of the fine default program on occupancy rates and costs, noting the high proportion of sentences falling into this category. The Ministry noted that these inmates usually serve only very brief sentences and often choose to pay their fines after serving only a portion

of their sentence. As such, they do not account for a major proportion of time served. However, the Ministry felt that there were a number of instances where this was not cost-effective in terms of the amount of the fine, and noted the Cabinet directive to develop community-based alternatives to sentencing.

#### Inadequate Monitoring of Absenteeism and Overtime

In his report, the Auditor had noted that overtime ranged from 3% to 9% of regular salaries at the seven institutions visited, and observed that these variations were not investigated by all the regional offices. As well, the Auditor noted that the regional offices did not monitor sick leave at the institutions.

In its response to the Auditor, the Ministry agreed that there was no specific attendance report submitted by institutions to regional offices monthly, but noted that most institutions had a more or less formal attendance review process. It further noted that its monitoring system did identify where sick leave led to overtime or unclassified staff usage.

The Ministry provided further information to the Committee on its efforts to reduce its staffing problems, which it described as including absenteeism, unscheduled hospital care where staff has to be sent to the hospital with an inmate, maternity leave, and workers' compensation claims. The Ministry noted that lost time varied widely between institutions depending on the individual circumstances of each facility. Precise overall statistics were not provided as the Ministry did "not want to say arbitrarily that there is an average absenteeism". It was implied, however, that sick leave averaged ten days per year.

The Committee asked about the extent to which the Ministry had analyzed the absenteeism and attempted to identify and overcome reasons for the absenteeism. The Ministry indicated that it was able to identify separate categories, such as workers' compensation, maternity leave, and various durations of sick leave, but that this had to be done manually at the present time. This analysis showed that there was a significant problem with one and



two-day absenteeism. The Deputy Minister stated, "The union takes the position that it is innocent absenteeism, and we take the position by and large that it is, except when we find it is not". The Ministry anticipated that the personnel information system which would form part of its new computer system in 1989 would increase its analytical capabilities significantly.

The Ministry is working to reduce time lost through several measures:

- meetings with unions to address outstanding grievances (reduced from 1,450 to 375 during the past 18 months);
- establishment of a compressed work week with longer shifts, allowing three-day weekends; and
- activation of absenteeism committees in each institution to work with staff on a one-to-one basis to attempt to overcome absenteeism problems.

The Committee asked what measures the Ministry was taking to provide non-stigmatising support and assistance to its employees, through such measures as wellness programs and preventive health programs focussing on such areas as quitting smoking or overcoming problems with alcohol or drug abuse. The Ministry indicated that it was discussing a comprehensive employee assistance program with the Deputy Minister of the Human Resources Secretariat. It was felt that increased efforts, in cooperation with staff and unions, were necessary in this area. It was noted that Alcoholics Anonymous programs were available in all the Ministry's facilities, although the Ministry did not indicate the extent to which staff made use of them.

#### **Inadequate Effectiveness Measures**

In his report, the Auditor had assessed the extent to which the Ministry was measuring its success in achieving its objectives for the Institutional Services Activity:

- protecting society from crime (evidently interpreted by the Ministry to refer only to the period of time that the inmate is in custody, and not to any post-custody positive rehabilitative outcomes); and
- motivating inmates towards positive personal change.

The Auditor noted that the Ministry used two measures of its success in protecting society from crime: number of escapes, and number of



misconducts while in custody. It appeared that this information was being gathered for statistical purposes only, and that there was no evidence of efforts to compare or analyze the data to identify potential problems or to assess progress.

In its response to the Auditor, the Ministry felt that comparisons of escapes and misconducts at various institutions "were not fruitful" for the same reason that per diem comparisons were not fruitful -- that the facilities varied. The Ministry noted, however, that in one region, this data was routinely incorporated into the performance appraisals of the superintendents of facilities, and that in other regions it would be incorporated "if negligence were indicated."

The Auditor also found that the Ministry had not measured the effectiveness of its efforts in rehabilitating inmates. While acknowledging that the correctional system alone could not fully achieve this, the Auditor noted that some \$10 million was being devoted to "rehabilitation", and felt that it was essential to have some idea of the results of these measures. The Auditor suggested a number of specific indicators related to recidivism and inmate activities subsequent to release.

The Auditor noted that the facilities visited offered a variety of industrial and self-sufficiency activities, educational programs, and trades training. The Auditor noted that the Ministry had no information on the success of these programs or the extent to which they were relevant or useful to inmates subsequent to release. The Auditor felt that the Ministry should gather data on the demand for particular types of trades in specific areas, so as to shape its trades training program mix, and that it should conduct studies to assess the success of its programs.

In its response to the Auditor, the Ministry acknowledged that the Auditor had identified "a valid concern." It stated, "Measures which have been identified have been found either to be not workable or practicable from the standpoint of cost or respect for privacy." It further noted that an "extremely costly . . . extensive post-release follow-up program" would be needed to implement the Auditor's suggestions regarding measurement of effectiveness, and stated, "Because of the high cost, the Ministry has elected not to undertake such an exercise."

The Ministry noted that a new offender information system was being implemented which would enhance its ability to measure recidivism within Ontario. As well, the Ministry noted that it had carried out several studies over the years to assess the success of individual adult programs. It further noted that its industrial and self-sufficiency programs were subject to continuous monitoring using the Management by Results Process, and that it was carrying out an extensive policy review of its industrial programs. The Ministry concurred with the Auditor's suggestion regarding information gathering on demand for trades.

The Committee noted the findings of the Liberal Task Force on Criminal Justice and Correctional Institutions, which observed in October 1984 that "Research to evaluate these [Ministry rehabilitation] programs was conspicuous in its absence." The Task Force recommended that "An evaluative research component be assigned to every 'rehabilitative' program in correctional institutions in order to assess effectiveness."

The Committee questioned the Ministry at some length on its efforts to rehabilitate inmates and to measure the success of rehabilitation. The Ministry described its various programs and gave a number of examples of different categories of inmates and their varying responses to interventions. It was stressed that rehabilitation programs are not compulsory for inmates, and that the inmates have to want to take them. The Committee asked if the sentences could not require the inmates to take particular programs. The Ministry stated that they could not. It was noted that judges do call for assessments of the need for treatment.

The Ministry indicated that, as noted in its response to the Auditor, it did conduct evaluations of its individual programs. However, the Ministry noted, it was very difficult to assess the impact of these programs on inmates, in that a post-release longitudinal study would be required, of at least five years duration. This was felt to be difficult to carry out, in that the consent of the inmates was required, and was frequently not forthcoming. Moreover, the study was felt to be very costly (\$1.5 million for a broad-based evaluation of treatments).

The Ministry felt that, in general, its interventions were more likely to have some impact if inmates were in custody for longer periods of time. This

offered the Ministry an opportunity to convince inmates of the need for treatment, and some time for the programs to then take effect. The Ministry further noted that some categories of offenders were more open to rehabilitation opportunities, including women, youth, and first and second-time offenders.

The Ministry noted that many inmates face a complex array of interrelated problems, including illiteracy, a history of deprivation and family violence, and substance abuse. In these cases, an array of treatments must be prioritized and made available. Other challenges faced by the Ministry include ex-psychiatric patients who are frequently more in need of care than of custody, and mentally handicapped individuals. As such, outcomes vary widely and are not always encouraging.

The Committee asked the Ministry about its efforts to coordinate its work with other ministries. The Ministry observed that approximately two-thirds of the young offenders entering its custody had had previous contact with the Ministry of Community and Social Services, and that this allowed the Ministry to identify the youth's problems and needs.

The Ministry also stated that it was pursuing discussions with the Ministries of Education and of Skills Development to identify possible programs which inmates could take after their release. However, the Ministry indicated that a number of its clients lacked the literacy level, the life skills, and the job readiness to be able to benefit from these programs. It was not clear what assistance programs did exist for these people following their incarceration.

The Ministry felt, however, that if people were unable to achieve employment or economic stabilization within three months of their release, it was likely that they would be caught up in the justice system again.

### **Procedure for Handling Drug Offenses not Followed**

In his report, the Auditor had noted that the requirements of the Ministry's Standards and Procedures Manual with respect to the handling of drug occurrences were frequently not followed at the five institutions reviewed. Police and the Regional Director were not always informed as required, nor



was there evidence that the drugs themselves were handled and disposed of as required. The Auditor recommended that Ministry procedures be reviewed and clarified, and that if existing procedures were impractical, a new policy should be established and monitored.

In its response to the Auditor, the Ministry stated that it would work to ensure that its procedures were evenly applied across the ministry, suggesting that the Ministry was satisfied with existing procedures, but that their application may have varied.

## Recommendations

### Improved Monitoring of Costs and Staffing

The Committee wishes to note its concern about the deficiencies and variations in monitoring of staffing levels and costs as identified by the Auditor. The Committee feels it is essential that Ontario's correctional facilities are operated in a cost-conscious and efficient way. As such, the Committee is encouraged to observe the Ministry's commitment during the hearing and in its response to the Auditor to such measures as:

- implementation of a modern management information system;
- independent operational reviews, including staffing reviews;
- documentation of the Ministry's monitoring of overstaffing;
- documentation of the Ministry's monitoring of variations in per diem costs;
- specialized reviews of functions in regional offices; and
- development of an integrated divisional/regional/institutional operational planning system.

The Committee feels that these measures hold the potential to reduce the problems noted by the Auditor. The Committee recommends that the Ministry submit a report to the Committee by March 31, 1989, outlining its progress on these matters, and notes its intention to recall the Ministry for further questioning if deemed necessary.



### Measurement of Effectiveness

The Committee wishes to express its concern about the Ministry's limited efforts to measure the success of its rehabilitation and treatment programs. The Committee notes that the Ministry is developing a new offender information system, and recommends that the Ministry ensure that this system have the capability to track recidivism. The Committee further recommends that the Ministry monitor and analyze recidivism on an ongoing basis, taking into account such factors as the length of time the individual has spent in the community and the reasons for the individual's return, with a view to developing more effective treatments for the individual.

The Committee feels, in light of the recidivism rate and in light of the substantial funds being devoted to rehabilitation, that the Ministry should develop an evaluative research component for each of its rehabilitative programs, and that evaluations should be carried out not only at exit from custody but also, so far as possible, on a longer-term post-release basis. The Committee recommends that these evaluation components be in place by April 1, 1989.

### Handling of Drug Occurrences

The Committee notes with concern the Auditor's finding of improper handling of drug occurrences in some facilities. The Committee recommends that the Ministry increase its efforts to ensure that its institutions comply with Ministry procedures.

**Ministry of Northern Development and Mines  
Better Management Practices Needed,  
Mines and Minerals Program  
The Provincial Auditor's 1987 Report, Section 4.10**

## **Introduction**

On May 19, 1988, the Standing Committee on Public Accounts reviewed the Auditor's concerns regarding weak management practices at the Mines and Minerals Division of the Ministry of Northern Development and Mines. The Auditor's review was intended to assess:

- the management practices, including project selection, of the Ontario Geological Survey; and
- the activities of the province's Mining Recorders in administering the Mining Act.

The Ontario Geological Survey (OGS) and the Mining Recorders are part of the Mines and Minerals Division of the Ministry of Northern Development and Mines. Prior to 1985, these activities, together with various other mining support functions, were conducted through various branches of the Ministry of Natural Resources. During 1985, most functions related to mining were transferred from Natural Resources and consolidated in the Ministry of Northern Development and Mines. The transfer was formally completed on April 1, 1986.

The OGS has just under 100 staff, a level which has remained fairly steady over the past several years. In addition to its own work program, the OGS also undertakes externally funded projects (forecast at about \$2.6 million in 1988-89), usually for other government agencies. Additional staff are often hired on contract to carry out these projects. In addition to the OGS, the Mines and Minerals Division also employs 16 Resident Geologists, located in 16 offices throughout the province. These staff are part of the Division's field office branch.

The Mining Recorders are individuals appointed by Order in Council and are primarily responsible for the administration of the Mining Act. They issue mining claims, ensure that claims are worked as required by the Act, and maintain all records pertaining to mining claims. There are nine Mining Recorders, in nine offices throughout the province. Like the Resident

Geologists, they are part of the Division's field office branch. The offices of the Mining Recorders vary in size depending on the level of activity in the region. In all, some 50 staff, including the Mining Recorders, claims inspectors, and support staff, work in the area.

The Auditor had found that although the Ontario Geological Survey placed great emphasis on "doing things right" in terms of the scientific quality of their work, there was no evidence that they were "doing the right things", in terms of a documented and systematic long- and short-term planning and project selection process. Furthermore, the definition of "doing things right" apparently did not include timely completion of projects; the Auditor found that ongoing project management was weak, leading to significant delays and backlogs in work.

With respect to the work of the Mining Recorders, the Auditor found administrative practices which required modernization. Fees had been unchanged since 1906. Security over records was inadequate: only the paper originals were kept, safeguards against fire or damage were lacking, and total public access was permitted. Inconsistencies in goals and practices existed from region to region. A high rate of recording errors in the administration of claim records was identified.

The Committee reviewed these findings with officials of the Ministry of Northern Development and Mines, including the Deputy Minister, the Assistant Deputy Minister of the Mines and Minerals Division, the Director of the Ontario Geological Survey, and the Director of the Mineral Development and Lands Branch, responsible for the Offices of the Mining Recorders. The Ministry outlined the measures which it had taken to address the Auditor's concerns, and made commitments as to further planned improvements.

The Ministry felt that the Auditor's report was constructive, and provided a useful blueprint for modernizing and improving the management techniques and concepts of two long-established areas of government. The Deputy Minister stated that both he and the Minister had indicated to the Ministry that they viewed the report as one that should be studied very closely, and all of its recommendations, wherever feasible, implemented.



### **Inadequate Planning and Project Selection Process, Ontario Geological Survey**

The Auditor had found that no specific objectives regarding geological priorities had been formulated for the OGS, nor were there any productivity targets. Planning focussed on previous resource levels instead of previous results and progress. In correspondence to the Auditor, the Ministry indicated that "a process to more clearly develop operational goals, measure efficiency, and assess the impact of the OGS on exploration and development activity is currently being established." The Ministry indicated that it would respond further on the success of this project.

The Auditor found that the selection and ranking of geological projects was undocumented and that there was no evidence that projects were all evaluated against the same criteria. One factor in project selection was to ensure that the total number was sufficient to ensure that all staff had a project. In contrast, the selection process for projects funded externally was more formal and rigorous. The Auditor felt that the project selection process should be more formalized and that formal proposals addressing the justification and cost/benefit should be required for all projects.

In its letter to the Auditor, the Ministry stated that a "more formal system [of project selection] would be developed and put in place during 1988" and indicated that this would enable better monitoring of the OGS's performance by senior management.

In response to the Committee's questions, the Ministry described progress on its efforts. A policy sub-committee has been established within the division, charged with the tasks of developing formal criteria upon which to base the project selection process, and designing a system for documentation of that process. The sub-committee is developing these criteria in consultation with various user groups and the Division's own field staff. These tasks are to be finished by October 1, 1988.

The Ministry noted that the task was complex, owing to the number and variety of interested client groups, all of whom had their own objectives and priorities for the work of the OGS. As well, the Ministry noted, one effect of the consultative process was to generate substantially increased requests for



field work. Nonetheless, the Ministry expressed commitment to the process, and felt that it would be completed by the deadline. The Ministry indicated that it would be pleased to outline progress to the Committee in November if requested.

In response to a question from the Committee, the Provincial Auditor stated, "Certainly it is no simple matter to develop the criteria for setting priorities. We are satisfied with what the Ministry has indicated as the process it now has in place, particularly with the October deadline that it has established."

The Committee asked about the extent to which the Ministry took public demand into account in developing its work plan. The Ministry indicated that it generally responds to trends in the emphasis on particular types of minerals, and that it also directs additional resources to areas of the province in which exploration interest is very high. However, it was noted that past efforts to "chase exploration" had not been entirely effective in that it often lagged behind the private sector activity. As such, the Ministry seeks to achieve a balance between its basic program of systematic mapping, which provides explorationists with a framework and a base for their activities, and responsiveness to public demand.

Individual inquiries from members of the public or firms are dealt with in the first instance by the Division's resident geologists. These staff are permanently stationed in the field and are responsible for interpreting the work of the OGS to the public. Requests from the public involving substantial field work are referred to the OGS for possible incorporation into their work plan. The Ministry noted that formerly the OGS and the resident geologists had been in two different organizations. Now that they have been merged, the Ministry is reviewing their roles with a view to eliminating duplication and increasing efficiency.

### **Significant Project Backlogs and Delays, Ontario Geological Survey**

In his report, the Auditor had found major delays in project completion. A review of 1985 field work indicated that, of 64 projects, the status of 25 was unknown fifteen months later, and, of the remaining 39, less than a third had even released preliminary data or maps. Another test, involving a random review of 13 reports, had indicated that only one had been completed on

schedule, and that delays for the remaining 12 ranged from one month to seven years. The Auditor felt that these delays were costly to the province, both in terms of the inefficient use of resources within the OGS and the loss or delay of valuable exploration activity and mineral discoveries by OGS clients.

The Auditor attributed the delays in project completion to:

- an inadequate project monitoring process;
- an inadequate staff monitoring and time reporting system; and
- the impact of external add-on projects.

In its letter to the Auditor, the Ministry had agreed that "a more vigorous system to monitor projects and resources is required." The Ministry indicated that its new process for project selection and approval would include time frames for project completion. It stated that in 1988, work would be monitored, delays would be identified and explained, and corrective action would be identified. These reports would go to the Assistant Deputy Minister of the Mines and Minerals Division, who would ensure action on delayed projects.

The Ministry agreed with the importance of staff and time monitoring, and felt that it might be feasible to implement a cost monitoring system tied to specific projects. The Ministry noted that the financial systems then being provided by the Ministry of Natural Resources did not accommodate such monitoring, but indicated that it would consider incorporating these capabilities into the new financial systems being developed as part of the Sudbury relocation plans. The Ministry felt that development of these monitoring capabilities would allow it to assess the impact of add-on projects on the OGS core workload.

In response to the Committee's questions, the Ministry described the process and stages of its field work and report production. It was felt that the main problem lay in completion of the final reports and coloured maps. These require considerable editing and verification as the OGS takes full responsibility for the accuracy of their contents, unlike the preliminary maps and Open File Reports. The physical production of maps has also been a slow and labour-intensive process until recently.

The Committee inquired as to the status of the 1985 field work discussed in the Auditor's report, including the 25 projects whose status had been unknown. The Ministry explained that the Summary of Field Work upon which the Auditor had based his review had involved activities, rather than projects. As such, although 64 activities had been contained in the report, only 39 projects had been involved. The 25 activities noted by the Auditor had in fact been subsets of various projects. The Ministry acknowledged that it would have been clearer to identify each of the 64 activities in terms of its project number. This had not been done in the past because the clients had been primarily interested in the content of the report rather than its administration structure.

The Ministry acknowledged that there was scope for better linkages between the various management functions of planning, budgeting, project management, and reporting, and stated that it was seeking to improve its system in accordance with the Auditor's recommendations. A consulting firm, Stevenson Kellogg Ernst and Whinney, had been retained in January 1988 to develop the new system, and was expected to complete its work in July 1988. The system will provide for tracking, management, and costing of projects.

The Committee inquired whether the Ministry had considered privatization of the map production process. The Ministry indicated that it had been considered in the past. Some concerns had been expressed by the OGS about the confidentiality of the work, the ability of the geologists to have continuing input into the production of the maps, and the expertise of the firms in question. The Ministry did not feel that these concerns were insurmountable. It was also noted, however, that there was some question as to the availability of sufficient private sector firms to ensure a competitive and cost-effective tendering process.

The Committee also asked whether the Ministry had considered a modified version of some of its maps which would provide much of the information but in a less sophisticated way. For example, it was suggested that surficial maps might blend mapping work and high-quality aerial photographs, to deliver a somewhat less accurate but quicker product. The Ministry noted that it did produce preliminary and intermediate maps and that these were available more quickly than the final ones. However, it was noted that the Ministry accepts full responsibility for the final maps, and that they are documents which clients use for several decades.



The Deputy Minister stated to the Committee that he would ask the consultants who are developing the project management system to consider the issues of privatization and of modification of maps which had been raised by the Committee.

The Committee and the Ministry discussed the Ministry's implementation of new technology as a means to improve the timeliness and impact of the OGS's work. The Ministry indicated that it was seeking to computerize its work throughout the cycle. A pilot project was conducted during the 1987 field season whereby staff entered geological data onto computers at the field camp. The Ministry is also introducing a CAD-CAM software application to allow geologists to begin mapping work in the field.

Production of the text of reports is now automated as well, significantly reducing delays in this area. The Ministry indicated that the principal obstacle to report completion at this time, production of the coloured maps, was also being computerized, eliminating the time-consuming drafting process. Further progress is expected in this area since the Ministry is upgrading from two terminals to six. It was noted that the Ministry is seeking to develop a comprehensive mapping data base containing digitized data which will allow the production of various permutations and combinations of maps depending on the needs of individual customers. It was indicated that, with increasing frequency, clients are requesting computer tapes or diskettes containing the data, rather than the maps.

The Committee asked about the capabilities of the OGS's human resources in this area, and the Ministry's training efforts. The Ministry stated that a number of its staff in the computer area are young and knowledgeable in the area. Other longer-time staff are being trained in a gradual way. It was felt that initial apprehension about the technology is soon replaced by an appreciation of the capabilities of the technology to contribute to the work. As well, younger geologists being hired have usually received training in the area as part of their educational qualifications.

#### **Major Administrative Deficiencies, Mining Recorders**

The Auditor reviewed the operations of the province's Mining Recorders and found a number of deficiencies in their administration of the Mining Act.



### Inconsistent Policies and Approaches

In his report, the Auditor noted that when the Mining Recorder function had been at the Ministry of Natural Resources, up until 1985, each Mining Recorder was able to set his or her own level of service and enforcement of the Act. This led to substantial variations in the extent of inspection activity from office to office, although most of the offices appeared to be reactive rather than proactive in their inspection of claims. The Ministry of Northern Development and Mines was reviewing these inconsistencies, but had not overcome them at the time of the audit. The Auditor felt that policies with respect to the nature and frequency of inspection needed to be formulated and consistently applied.

In its correspondence with the Auditor, the Ministry agreed that inconsistencies existed in the Mining Recorder Offices, attributing it to the "highly decentralized environment" under the Ministry of Natural Resources. The Ministry indicated that a new management structure had just been approved at the time of the audit, and was now in place, and that it would lead to more consistent and better administration. The Ministry noted that correction of some deficiencies required changes to the Mining Act, but that it was committed to preparing a Policy and Procedures Manual which would set standards for the Mining Recorders. The Ministry expected to complete the Manual late in 1988 or early in 1989. The Ministry also noted that additional inspectors had been hired since the audit.

### Poor Security over Records

The Auditor had found security over records to be inadequate. There were no copies of active claim records, the public was allowed access to all records, and the records were not protected against fire at most of the offices visited. The Auditor felt that a fire or theft of these records would be "catastrophic". In its letter to the Auditor, the Ministry indicated that in the past, the Mining Recorders had operated in a very open, "user friendly" way. The Ministry is developing a province-wide computerized data system for mining claims. The Ministry indicated that a consultant "will soon be retained" to review the data system and other security issues.

The Committee asked the Ministry about its progress in this area. The Ministry described the process for staking of claims:

- explorationists must acquire a prospector's license, at which time they are issued with metal tags bearing their identification number;
- the prospector then stakes the claim, a process which includes affixing the metal tags to stakes at each corner of the claim;
- next, the prospector records the claim, by providing the Mining Recorder with a sketch showing the location of the claim, and showing the license;
- the Mining Recorder plots the claim on a map to indicate that the area is no longer available for staking;
- he or she also starts a claim record, which bears the identification number of the prospector staking the claim, and which serves as the only documentation pertaining to the claim throughout its lifetime; and
- the Mining Recorder then monitors the work being done on the claim to assess whether it is sufficient to uphold the claim in good standing in accordance with the requirements of the Mining Act, and records any changes in ownership of the claim which may occur.

The Ministry explained that the issue of security arises mainly with respect to any original documents bearing signatures. It acknowledged that there was a need to improve its information handling system to separate the information which has to be held securely from the information which is required by the public and the industry. The Ministry is seeking to achieve this through the development of the computer system referred to in its response to the Auditor.

The Ministry noted that the system is being assessed through a pilot project in the Timmins Mining Recorder Office which is expected to be completed in July 1988. The Ministry felt that the pilot was going well, and noted that it offered several advantages:

- it allows the ministry to achieve its information security objectives by allowing originals to be placed in safe storage;
- it contains edits and checks which in effect audit the record as it is being entered, allowing the integrity of records to be verified; and
- it provides significantly improved customer service through faster access to a greater range of information.

However, the Ministry observed that it would be costly to automate the other eight offices, and felt that it would have to make a very strong business case in order to receive the necessary funds. The Committee expressed the view that automation would be very worthwhile in light of its benefits of greater security and improved efficiency. The Committee suggested that the Ministry discuss its automation efforts with other ministries, with regard to systems

such as OHIP and tax assessment. The Ministry indicated that it was in fact consulting with the Ministry of Consumer and Commercial Relations regarding their new land registration system.

### Administrative Errors

In his report, the Auditor had observed that there had been no regular internal operational reviews of the Mining Recorders since 1980. Ad hoc reviews which had been conducted by the Ministry of Northern Development or by the Mining Recorders themselves showed that a substantial number of claims had been improperly administered. These claims should have been forfeited by the claimant and made available to other explorationists. However, because of the administrative errors, the claim had to be upheld until the claimant had an opportunity to restore it to good standing. The Auditor further noted that the Ministry was planning operational reviews, but had not conducted any at the time of the audit.

In its letter to the Auditor, the Ministry had stated that a formal review of one office and informal reviews of the other eight had been completed. These reviews had identified over 2,000 incorrect interpretations of the Act across the province. The Ministry noted that a regulation had been passed to protect claim holders from adverse third party interests arising from improper administration of their claim, pending amendment of the Mining Act along these lines. The Ministry stated that further audits were planned once the Act had been amended.

The Ministry provided the Committee with further information on this issue. It was explained that the decisions of the Mining Recorders can be overturned by the Mining and Lands Commissioner, an arbiter who operates under the purview of the Ministry of Natural Resources rather than the Ministry of Mines and Northern Development. The Mining Act is complex and detailed, and hence appeals are not infrequent. The Commissioner's rulings can establish new interpretations of the Act which have the effect of rendering other Mining Recorder decisions invalid retroactively. In such cases, the Ministry felt that affected claimholders should not be penalized through the loss of their claim.

The Ministry felt that two courses of action were necessary. It was noted that the Mining Act had no capability to correct for such technical errors



made by staff. As such, it was necessary to amend the Act to allow such corrections to be made. The Ministry noted that the Minister had introduced a bill (Bill 132) in the Legislature to this end. [The Committee notes that this bill passed third reading on June 29, 1988.]

The other priority was to improve the management of the administration of the Mining Act to ensure that inconsistencies and errors are minimized. The Ministry is taking several measures in this regard, including the upgrading of the Standards and Procedures Manual noted earlier in this report, and the analysis of rulings by the Mining and Lands Commissioner to ensure that Mining Recorder decisions are consistent with precedents and likely to be upheld.

The Ministry also noted that, as a larger initiative, it was developing a Green Paper on the overhaul of the Mining Act. The Act was passed in 1906 and has been under review for a number of years. The Ministry expected that its Green Paper would be completed in the fall, and anticipated that it would be referred to the Standing Committee on Resources Development for review and public consultation. The Ministry noted that changes to the Mining Act might also serve to address concerns of the Auditor through bringing about simplified administration.

### Obsolete Fees

In his report, the Auditor had found that many fees had not been revised since 1906, and that fees in other provinces were five to twenty times as high. A tenfold increase in prospectors' fees alone would increase annual revenue by over \$1 million. The Auditor noted that the fees are embodied in the Mining Act itself, rather than in regulations, and as such are more difficult to keep up-to-date. The Auditor recommended that fees either be made realistic or eliminated.

In its letter to the Auditor, the Ministry agreed with the Auditor's recommendation, and noted that a staff review of the fee schedule was underway. In response to the Committee's questions, the Ministry indicated that its review would form part of the Green Paper. The Committee asked whether the Ministry had considered incorporating this matter into Bill 132, so as to deal with it more quickly. The Ministry stated that it had considered including this and other changes in Bill 132, but that it had opted to keep it



simple. As well, the Ministry felt that broader changes might be made to the structure and process of fees as well as the level, and thought it appropriate that the public be consulted on these matters through the Green Paper.

### Recommendations

The Committee notes that the Ministry is undertaking a range of initiatives to address the concerns which the Auditor has identified and the Committee has reviewed:

- development of criteria to guide the selection process, in consultation with users and field staff (expected completion in October 1988);
- development of a project management, tracking, and costing system, through a consultant (expected completion in July 1988);
- ongoing upgrading of its technological capabilities so as to improve the efficiency and effectiveness of its geological activities;
- improved management of the Mining Recorder function;
- amendment of the Mining Act to allow correction of administrative errors so as not to penalize Ministry clients for administrative errors in interpretation (completed June 29, 1988); and
- development of a Green Paper on modernization and amendment of the Mining Act, including the rationalization of fees and the simplification of administration (expected to be ready for review and public consultation by the Standing Committee on Resources Development in the fall of 1988).

The Committee feels that these measures hold considerable potential to address its concerns. The Committee requests the Provincial Auditor to review the Ministry's progress on these initiatives during the remainder of fiscal year 1988-89, and to report any concerns which he may have to the Committee.

It is the decision of the Committee that the Clerk of the Committee send a copy of this report to the Standing Committee on Resources Development, in the belief that it may be of interest to them in the course of their consideration of the upcoming Green Paper on proposed changes to the Mining Act. The Committee requests the Provincial Auditor or any staff he may wish to designate to appear before the Standing Committee on Resources Development to discuss his concerns, should the Standing Committee on Resources Development request his assistance.

**Ministry of Skills Development:  
Improved Budgeting, Compliance, and Measurement Needed,  
FUTURES Program  
The Provincial Auditor's 1987 Report, Section 4.11**

### **Introduction**

On February 23, 1988, the Standing Committee on Public Accounts considered the Provincial Auditor's concerns regarding the funding, administrative control, and evaluation of the FUTURES program by the Ministry of Skills Development.

The Ministry of Skills Development was established in March 1985, consolidating a number of widely dispersed activities and organizational units related to training, youth, manpower, and employment development. The Ministry's skills development efforts are directed toward improving the employability of individuals, particularly those persons and groups facing employment barriers, and assisting employers to meet their training needs.

In November 1985, six employment and training programs were consolidated to form the FUTURES Program. The program involves pre-employment preparation, employment counselling, educational upgrading, and work experience for youth facing employment disadvantages. It provides training allowances and/or wages paid directly to the youth, and is delivered through a network of field offices in community colleges and Youth Employment Counselling Centres. The Centres are operated by a range of organizations such as the John Howard Society and the YMCA. The Ministry is responsible for allocating funding to the offices, exercising administrative controls through contracts with each office, and evaluating the program. The Auditor had concerns about the Ministry's performance of each of these functions:

- the funding process was deficient in terms of cash management, as indicated by the fact that the Ministry had provided \$4.4 million more funding to FUTURES offices than requested;
- FUTURES offices were not complying with program guidelines, in that participant assessments were often incomplete and eligibility data was often not verified and sometimes not retained; and
- procedures for measuring the success of the program had the potential to result in misleading information, and offered scope for improvement.

The Committee reviewed these concerns with officials of the Ministry of Skills Development, including the Deputy Minister, the Director of Youth Employment Services, and the Executive Director of Finance and Administration. The Ministry answered the Committee's questions on the Auditor's concerns and outlined its initiatives to address these concerns.

### **Excess Funding of FUTURES Offices by the Ministry**

Each FUTURES office must submit an annual application for funding which is reviewed by the Ministry prior to approval of funding. Funding is then provided under a contract which specifies, among other things, the financial control and accountability requirements which the offices must follow. The Auditor had reviewed the Ministry's procedures for review of funding applications and the controls of the payment process. The Auditor had found that controls in the offices over the receipt of FUTURES funds from the Ministry and disbursements to participants were generally satisfactory.

However, the Auditor expressed concern that the Ministry's budget review and funding allocation process did not show sufficient regard for careful cash management. The Auditor observed that almost one-third of the offices — 41 out of 129 — had received additional funding over and above that requested in the budget submissions. The extra funding amounted to \$4.4 million and was sufficient to fund 1,900 placements. The Auditor noted that, according to mid-year reviews, nine of the 41 offices could not even use their original allocation, and questioned whether they would be able to effectively use the additional funds.

Often no consultation had taken place as to the offices' ability to achieve additional placements, and in one case, the office had expressed doubt to the Ministry that it could even meet its original target for placements. During the audit, concern had been expressed at one field office that the increase in targets might place pressure on the office's screening of applicant eligibility.

The Auditor further noted that in some offices with excess funds, some funds had been diverted to other uses, including the loan of \$6,500 to an unrelated program administered by the same office, and the purchase of appliances by an office using interest earned on unspent FUTURES funds.



The Auditor acknowledged the need for some flexibility in the funding process, but recommended that the Ministry review its funding practices to ensure that the allocation of funds was consistent with the goals and needs of the offices delivering the program.

In its response to the Auditor, the Ministry had stated that its allocation of funds was based on a process of consultation and negotiation with the offices, including mid-year reviews to refine funding needs, and year-end reviews to ensure that the offices had used the funds properly. Clarification of this process was provided to the Committee in the Deputy Minister's opening remarks and in responses to the Committee's questions.

The Deputy Minister noted that the Auditor's review had taken place when the program was still in its infancy, and attributed a number of his concerns to the fact that the program had still been in its startup phase at that time. She felt that improvements were being achieved as program experience was gained by the Ministry and the field offices.

With regard to the excess funding issue, it was noted that the Ministry's funding process seeks to ensure that overall provincial goals are met, while not exceeding the capacity of each office. The Ministry's decision to provide additional and often unsought funding to 41 FUTURES offices at the mid-year review point was attributed to the Ministry's view that the offices had underestimated the number of clients they could serve. This view was based on two factors:

- the offices were still accustomed to delivering the ministry's earlier programs, which had been more restrictive in terms of subsidized work placements; and
- the Ministry anticipated that a mid-year communications effort would increase client demand for the FUTURES program.

The Ministry indicated that the office noted by the Auditor which had felt it could not meet its original target had been correct, and acknowledged that, "with the benefit of hindsight, the Ministry was overly optimistic in this instance". The Committee expressed the view that the Ministry should be more responsive to the judgements of its front-line field offices and should endeavour to make its funding decisions in a consultative rather than a centralized way.



The Ministry noted that a number of new expenditure management processes had been put in place in light of past experience. Funding is provided through a two-step process, whereby the office requests a preliminary allocation based on its past activity levels, and then submits a detailed budget which modifies the funding request upward or downward if warranted. As well, during the 1987-88 fiscal year, the Ministry introduced a system of quarterly reports, which will be upgraded to a monthly report in 1988-89. The Ministry will use this to regulate the cash flow from the Ministry to the offices to ensure that the cash flow is matched to field requirements.

The Ministry also discussed the diversions of funds noted by the Auditor. It was stated that the loan of \$6,500 to another program was a breach of the contract between the Ministry and the office, and that it had been corrected prior to the Ministry's midyear review.

The purchase of appliances by one of the offices was defended as a permissible use of funds. The Deputy Minister stated that there were guidelines governing such purchases. Funds are provided to FUTURES offices in two budget categories, one for participants' wages and stipends and the other for offices' administrative costs, including equipment. It was stated that the appliances in question — a microwave and a refrigerator — had been purchased to serve program clients who might be at the centre all day. The Deputy Ministry indicated that the guidelines did not spell out a list of permissible equipment, but rather allowed local offices to determine their own equipment requirements in light of varying needs. However, the Ministry's new budget processes require field offices to itemize the equipment purchased with FUTURES funds in 1987-88, and to identify planned furniture and equipment purchases in 1988-89.

### **Non-Compliance with Ministry Guidelines**

The FUTURES Program serves clients who are aged between 16 and 24, who have been out of school for at least a year, and who meet one of the following criteria:

- less than Grade 12, and out of work for at least 12 weeks; or
- Grade 12, and out of work for at least 16 weeks.

The Auditor reviewed nine of the FUTURES offices to assess whether they were meeting program guidelines with respect to:

- assessments of the participants' strengths, weaknesses, and problems, using criteria established by the Ministry, to identify optimum placements in the context of participants' individual needs and goals; and
- verification and proper retention of data on participant eligibility with respect to age, education, and employment history.

The Auditor found, with respect to assessments, that some of the offices were doing excellent assessments, but that in five of the nine offices, the assessments were incomplete and did not address all the criteria. The Auditor found some evidence of improvement in the assessments which had been made later in the program. However, the Auditor felt that this area warranted particular attention by the Ministry.

With regard to eligibility data, the Auditor found that this data was frequently not being verified in seven of the nine offices, and that the remaining two did not retain copies of verification documents on file, making it impossible to assess whether the data had been verified or not. The Auditor then reviewed a sample of cases and identified instances where ineligible individuals had been approved for the program. The Auditor observed that verification of data was important to ensure that only eligible youth took part in the program, and that retention of the data served to prevent misuse of funds by enhancing the auditability of the program. The Auditor found that guidelines on retention of data were unclear, and suggested that they be clarified.

The Committee questioned the Ministry in detail about these findings. The Ministry noted that it had also identified these shortcomings and had taken remedial measures to address them, a fact acknowledged in the Auditor's Report. Revised program guidelines have been put in place to ensure thorough record keeping, and the Ministry has a monitoring process of regular field visits and reviews of randomly selected files. It was stated that the 1987-88 reviews were almost completed, and that further improvement in documentation and verification practices by delivery agents had been achieved.

The Committee asked the Ministry what measures it took in cases where its reviews identified ineligible individuals who had been accepted into the

program. The Ministry was unable to say whether such individuals were removed from the program. The Ministry stated that in such cases it emphasized the program guidelines to the offices and required the office to adhere to them in future. It was further stated that the Ministry's reviews had not yet identified any FUTURES offices which were "flagrant violators" of the guidelines. In response to a question by the Committee, the Auditor felt that if any agency were found to be regularly violating the guidelines, it would be appropriate for the Ministry to use the prospect of termination of funding as a means to obtain compliance.

It was noted that concern had been expressed in the past by the field offices about the high expectations placed on FUTURES offices in terms of participation targets. The lack of eligibility verification and documentation was identified as a means to increase client loads, while at the same time reacting to the pressures on the offices to include people falling just short of the eligibility guidelines. The Committee asked the Ministry about the extent to which the guidelines were being waived, given that there are pressures to include "borderline" applicants in any case.

The Ministry stated, "We do indeed make it very clear to our delivery organizations that the age criterion and the time-out-of-school criterion are not ones that can be waived." The Ministry's view was that people over the age of 24 did not face the same severity of employment disadvantage, and that in any case other programs were available which might assist these people to obtain training and work experience.

The Committee asked if the administrative problems identified by the Auditor had been found throughout the field office network. The Ministry indicated that a number of the problems identified by the Auditor had occurred in the youth employment counselling centres rather than the community colleges. It was indicated that a large share of the Ministry's professional development efforts had been devoted to these centres, and that their financial management and administrative practices have improved considerably. As well, the Ministry has developed a management information system and has provided the related computer hardware and software to each of the offices to track and report activity and expenditures.

The Committee questioned the Ministry on its professional development and administrative training, and about efforts by the offices themselves. The



Ministry indicated that the offices had recently formed an association of youth employment counselling centres, which was in the process of negotiating with the Counselling Foundation of Canada to undertake an intensive series of professional development seminars. As well, the Ministry itself conducts a wide range of training efforts.

The Committee asked about the extent of training in administrative and financial management, as opposed to professional skills such as counselling. The Ministry indicated that while training support for field staff often involves professional skills, seminars for the directors of the centres emphasize management skills such as strategic planning, while training support for clerical staff is directed at management of information such as client records. In response to a Committee question on the nature and extent of evaluation of the Ministry's training, it was indicated that participants in the seminars are asked to evaluate the effectiveness of the training from their perspective. It was acknowledged that this was a subjective evaluation.

It was noted that the use of third-party community-based agents offered flexibility and responsiveness to a client group which was by definition hard to reach, and that the Ministry's challenge was to achieve accountability without imposing rigid controls and losing these strengths.

### **Concerns Regarding Measurement of Program Effectiveness**

The Auditor noted that in mid-1986, the Ministry had changed its measurement of success, such that the proportion of participants classified as having a positive outcome had increased from 60% to 70%. Initially the Ministry had defined a positive outcome as including those individuals who had:

- found full-time employment;
- returned to school;
- moved from the job preparation phase (Pre-Employment) to the work experience phase (Work Placement); or
- been referred to another agency such as the Canada Employment Centre for job placement.



Individuals who left in mid-program were initially classified as negative outcomes and were included in the total number of participants used for calculating the success rate. In June 1986, a new category called "neutral" was created, which included such outcomes as quitting the program ("non-completion voluntary withdrawal"). This category was then excluded from the calculation of the success rate, such that only individuals completing the program were included in the measurement. The Auditor noted that this change had resulted in an arbitrary increase in the number of successful participants, and felt that this could result in misleading information. However, the Auditor noted that the Ministry had continued to develop its measurement system, and had moved to a system which measures the status of the individual three months after the program.

The Committee questioned the Ministry extensively on this finding and on its current approach to the measurement of its program's success. The Ministry explained that the changes noted by the Auditor had involved several modifications. For example, the initial method had included moving from component to component within the program as a positive outcome, and the Ministry had decided that this was not an appropriate success indicator. On the other hand, the Ministry had felt that if clients quit the programs for reasons such as moving, this could not be considered a negative outcome, and hence the neutral category had been established.

However, the Ministry stated, it had eventually been determined that the appropriate measure was not at the time of exit from the program, but rather three months after exit. The Committee questioned whether a longer time period might be more suitable. The Ministry indicated that the three-month time period allowed assessment of the effects of the program before a large number of other events and interventions had occurred in the participants' lives, and also ensured that the Ministry was able to locate a relatively large share of participants for follow-up. The Ministry noted, however, that it hoped to increase its longer-term research and assessment of the effects of its programs on youth, through longitudinal studies.

The Ministry stated, "The three-month follow-up is done on every participant, not just those who complete the program, but every participant. It is not just

those who graduate."\* The new system has two positive outcomes (employed or returned to school), a negative outcome (unemployed) and a small "other" category. The employed category is further broken down into employed with the FUTURES employer and employed with another employer. The Ministry noted that in 1986-87, FUTURES had a 70% success rate based on a three-month follow-up: 11% had returned to school, 28% were employed with a FUTURES employer, and 31% were employed with another employer. The Ministry felt that in light of the employment disadvantages faced by its client group, these outcomes were creditable.

The Committee noted that the amalgamation of six specialized programs into the FUTURES program had administrative advantages, but, on the other hand, held the potential to reduce sensitivity and responsiveness to the needs of particular regions and client sub-groups. The Committee asked about the Ministry's capability to measure the effects of its program on particular groups, such as visible minorities, and in particular regions with high unemployment levels, such as the north. The Ministry indicated that these statistics were not immediately at hand at the time of the hearing, but that it could try to provide the information later.

The Committee asked whether the Ministry was assessing the type of jobs held by FUTURES clients after the program. It was suggested that in measuring success, the Ministry should look at whether the clients are developing the types of skills and work experience which would lead them to long-term employment. The Ministry summarized its view of the purpose of the program: to take youth who are unemployed and disadvantaged, who are not participating in the labour market at all and may never have done so, who lack fundamental basic skills, and to get them to a point where an employer is indeed prepared to employ them. As such, employment in any capacity three months after the program is considered by the Ministry to be a valid indicator of success. However, it was noted that the disadvantages faced by the client group are such that "many interventions and many kinds of support and encouragement for these young people are needed". It was noted that youth have the opportunity to come back and participate in FUTURES again if their experience has not been satisfactory.

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\*NOTE: This is inconsistent with the research prepared for the Committee, which quotes the Minister's statement during scrutiny of the Ministry's Estimates, December 8, 1987, that the new measurement system includes only those individuals who have completed the program.

## Recommendations

### Funding Process

The Committee notes the measures taken by the Ministry to improve its cash management through the refinement of its funding process and the development of a monthly reporting and cash flow system.

The Committee recommends that the Ministry continue its efforts to match its funding levels and cash flow to the needs and capacities of its field offices, based on consultation with those offices.

### Compliance with Program Guidelines

The Committee notes that the Ministry has clarified its guidelines and strengthened its monitoring to ensure that the field offices adhere to program guidelines regarding participant assessments, and verification and retention of eligibility data.

The Committee recommends that the Ministry place high priority on ensuring that the program is delivered in compliance with guidelines, so that program funds are targeted to those individuals most in need of support.

### Evaluation of Program Success

The Committee wishes to note its concern about the potential for misleading information arising from the Ministry's past approach to measuring the success of the FUTURES program. As well, the Committee feels that the effectiveness of a program should be measured not only in terms of the impacts of the program on its clients, but more broadly by the extent to which the program is used by the total target population. As such, it is the Committee's view that the effects of the program can best be ascertained and the public can be most clearly informed if the measurement system clearly identifies:

- the eligible target population of the FUTURES program, including sub-categories of particular target groups such as northern, disabled, and visible minority youth;



- indicators of need within the overall target population and among selected sub-categories, such as unemployment rate, and educational attainment;
- utilization of the FUTURES program by the target population and by each of the sub-categories;
- among program clients, non-completions for all clients and for each of the sub-groups, and outcomes for those clients and sub-categories three months after quitting the program, using the following classifications: could not locate, positive, negative, and neutral (the Ministry should define what it means by each of those categories); and
- completions for all clients and for each of the sub-groups, and outcomes three months after leaving the program, using the same categories as for non-completions.

The Committee recommends that the Ministry consider this approach to measuring its target population and the impacts of the FUTURES program. The Committee further recommends that the Ministry give priority to a longitudinal study of the effects of its programs on youth.



**Ministry of the Solicitor General:  
The OPP Telecommunications Project and  
the Office of the Chief Coroner  
The Provincial Auditor's 1987 Report, Section 4.12**

## **Introduction**

On February 23, 1988, the Standing Committee on Public Accounts considered the Provincial Auditor's observations regarding the Ministry of the Solicitor General. Created in 1972, the Ministry is responsible for law enforcement and public safety in Ontario. Its activities include supervision of the Ontario Provincial Police (OPP) and related commissions and bodies, the offices carrying out forensic and coroner activities, and emergency planning and disaster activities such as the Fire Marshall's Office.

The Auditor reviewed the Ministry of the Solicitor General to:

- update the status of the OPP Telecommunications Project which the Auditor had reviewed in 1983 and 1984; and
- assess the adequacy of management controls to ensure that the operations of the Office of the Chief Coroner were being carried out economically.

The Auditor found that the OPP Telecommunications Project was continuing to experience delays and cost increases, and predicted that in all likelihood these problems would continue to be experienced. With respect to the Office of the Chief Coroner, the Auditor found that its duties were generally being carried out economically and efficiently. However, the Auditor expressed some concerns about the efficiency and consistency with which the posts of coroners were staffed. The Auditor also found duplication of effort in the Ministry's development of a new computer system to analyze causes of death across the province, leading to delays and cost increases.

The Committee questioned officials of the Ministry regarding these findings, including the Deputy Minister, the General Manager of the OPP Telecommunications Project, and the Chief Coroner. The Ministry provided an update on the progress of the OPP project, made commitments as to its expected completion, and explained Ministry approaches with respect to staffing of coroner posts and systems development.

## Further Delays, OPP Telecommunications Project

### Project Overview

This is the third time that the Auditor has reported on the OPP Telecommunications Project since its inception in 1980. The Auditor's 1983 Report identified concerns with the sharply rising costs of the project. These findings were investigated and reported on by the Public Accounts Committee in its 1984 Report. The Auditor's 1984 Report reported on the progress of the project. The Auditor's 1987 Report contains a further update.

The project entails replacing the existing OPP telecommunications system, which was installed in 1947, with a modern system. The existing system, which is based on a detachment-level dispatch system, has a number of shortcomings:

- blind spots and blocking of signals;
- no communication with other police forces, including RCMP and municipal forces;
- no capability for province-wide OPP radio communications;
- deterioration of aging equipment, increasing maintenance costs, and difficulty of obtaining spare parts;
- capability to handle only one call to one car at a time, making it difficult to deal with larger disasters;
- no walkie-talkie capability for officers when they must leave their cruisers; and
- minimal capacity for expansion or upgrading.

Beginning in 1977, the OPP developed a proposal for a new telecommunications system and submitted it to Management Board for approval in December 1979. The new system involved centralized radio dispatching via dishes at remote tower sites (then estimated at 70 sites, now some 150 sites) in 16 districts, which in turn would be linked to a central communications centre. The new system is expected to increase the safety, efficiency, and effectiveness of the OPP's work through the following features:

- interference-free communications;

- ability to communicate province-wide and to communicate with other police forces;
- "silent" radio operation, in terms of CB radios, etc.;
- multi-car and portable communications capabilities; and
- access by OPP cars to central computer data-bases.

These benefits have yet to be realized and are unlikely to be attained until the early 1990s, if then, since the project has experienced numerous delays, described in the following chronology.

### History of Past Delays

**January 1980:** Management Board approved the Ministry's proposal for a new system, involving some 70 remote towers, at a cost of \$24.4 million. The system was expected to be operational in 1983.

**January 1982:** A contract for \$20.1 million was let to Motorola to provide the radio equipment for the system. The contract was later increased to \$22 million to provide for an increased number of units. Commitments were also made to other suppliers for other equipment, and expenditures were incurred for land acquisition, modifications to existing communications centres, and design work. At this time, the Ministry recognized that a greater number of tower sites would be needed.

**August 1982:** Following a review of likely project costs, the Ministry submitted a revised proposal to Management Board which estimated the cost of the project at \$54.5 million, an increase of 123%.

**Fall 1982:** A Project Review Committee (PRC) chaired by a senior Management Board official was established to review the revised estimate and the Ministry's financial and management controls for the project. The PRC was supported by an audit team and a technical advisors' team. The technical team estimated the project costs at \$66 – \$71 million.

**December 14, 1982:** The PRC reported to Management Board that effective controls had not been exercised, and recommended that a project management team be established. A copy of the report was provided to the Provincial Auditor. Specific concerns noted in the report were that:

- government financial, administrative, and project management procedures had not been complied with;
- information had not been documented;
- the OPP and the Ministry had not exercised adequate control over the project;
- there had been no analysis of alternatives to an OPP-owned linking system;



- Ministry management had not been adequately involved in considering implementation alternatives;
- there was some question as to the ultimate reliability of the system; and
- costs were going to be far higher than initially expected.

**December 15, 1982:** A Cabinet minute was issued which ordered the prompt establishment of a Project Team and the submission of an Implementation Alternatives Report to Management Board by July 1, 1983.

**January 1983:** A Project Team was established, headed by a former Management Board official, and new senior personnel were brought in.

**April 1983:** The Project Team reported to Management Board on progress in establishing controls. Management Board approved additional funds for equipment testing, bringing total approved funding to \$29.7 million.

**July 1983:** The Project Team made its second report to Management Board and received a further \$170,000 in funds for testing.

**December 1983:** The Provincial Auditor's 1983 Report was released, and concern was expressed in the Legislature and the press regarding its findings on the increasing costs of the OPP Telecommunications Project.

The Project Team made its third report to Management Board, proposing a schedule for the preparation of the "Implementation Alternatives Report" required by Cabinet. Project funding was further increased to \$31.3 million. The Project Team made a commitment to provide the Implementation Alternatives Report by July 1, 1984, a year later than the date specified in the Cabinet Minute.

**March 1, 1984:** The Ministry appeared before the Public Accounts Committee to respond to the concerns identified by the Auditor on the project. By that time, as confirmed by an internal audit report, virtually all necessary management and financial controls had been put in place. Testing was scheduled for completion in the fall of 1984. The Implementation Alternatives Report was in preparation and expected to be completed by "late fall or early winter" (of 1984). Key unresolved issues were the design of the tower facilities and the choice of whether to go with an owned or leased inter-district linking system. The Ministry predicted that the system would be operational by 1987, but was not prepared to indicate to the Committee what the final costs might be, given that its analysis was not completed.

**June 29, 1984:** The Ministry indicated to Management Board that the Implementation Alternatives Report would not be completed until March 31, 1985.

**March 1985:** The 1984 Report of the Public Accounts Committee was tabled. It expressed concern about the delays, increasing cost, and potential obsolescence of the project, and recommended that the project be reconsidered and if necessary terminated.



**October 1985:** A preliminary Implementation Alternatives Report was submitted to Management Board, which requested that the Ministry provide further information. The project was now forecast to be completed by April 1990.

**February 1986:** A final Implementation Alternatives Report was submitted to Management Board. During the month, considerable media attention was given to assertions by the Ontario Provincial Police Association that the outmoded radio system was responsible for at least two recent deaths of OPP officers.

**March 5, 1986:** Management Board approved the proposal and provided additional funding of \$74.5 million, bringing total project funding to \$106.9 million. Management Board required the Ministry to provide annual progress reports beginning May 31, 1987.

**July, 1987:** The Ministry's first annual progress report was submitted, indicating that \$28.2 million had been spent on the project from inception to March 31, 1987.

#### The Provincial Auditor's 1987 Findings

In November 1987, the Provincial Auditor's 1987 Report was released. The Auditor found that "problems were being experienced, and will in all likelihood continue to be experienced, before the new telecommunications system becomes operational". The Auditor found that contracts were being satisfactorily monitored by management and by the Ministry's internal audit, but noted some concerns.

- **Delay:** The implementation schedule submitted to Management Board for approval in October 1985 had indicated that the project would be complete by April 1990, or 54 months later. At the time of the Auditor's review, the completion date had slipped to April 1992 -- 74 months or a 37% increase.
- **Cost Increases:** The Auditor noted that the delay would increase the cost of the project by a further \$1.5 million:
  - \$900,000 due to changing equipment delivery dates; and
  - \$600,000 due to lengthier storage of equipment already delivered.

The Auditor observed that at the time of the audit, \$3 million of equipment had been installed, while a further \$18 million of equipment was being held in storage waiting to be installed. In its response to the Auditor, the Ministry indicated that a total of \$18 million had been spent for equipment to date and that a total of \$3 million had been installed. This seeming discrepancy is due to the fact that the Ministry had taken delivery of \$21 million of equipment

in total, as noted by the Auditor, but had only paid \$18 million and was holding back the remaining \$3 million under the supplier contract until the equipment was satisfactorily installed and operating.

### Issues Raised by the Committee

It is apparent that the history of this project has been one of steadily spiralling costs and continuing delays. In the early days of the project, according to Ministry testimony to the Committee in March 1984, the problem was substantially due to an unrealistic initial estimate of costs; that is, the \$24.4 million figure was far too low. The Deputy Solicitor General at that time attributed this to two factors:

- hasty technical planning: due to pressures from the uniformed OPP forces for a new system, the time had not been taken to do the detailed engineering studies necessary to a comprehensive cost estimate (e.g. too few tower sites by half); and
- "a lack of appropriate financial, administrative, managerial control, and management . ." by " . . . OPP senior management and ministry management".

These deficiencies were to have been overcome through the appointment of the Project Team, the implementation of controls, and the detailed planning which led to the Implementation Alternatives Report finally being approved in March 1986. As such, the Committee questioned the Ministry in detail as to the reasons for the further delays, the current status of the project, the potential for continued delay and cost increases, and the possibility that the project might be obsolete when finally completed.

### Reasons For the Delays

The Ministry attributed the early delays in the project to "major design difficulties" which had caused the initial scope and hence cost of the project to be "grossly underestimated". In response to Committee questions as to why the project had apparently bogged down between 1983 and late 1985, the Ministry stated that the design difficulties had necessitated a major rethinking of the project, which had not been completed until the submission of the Implementation Alternatives Report in October 1985. That report forecast that the project would be completed in April 1990.

In its response to the Auditor, the Ministry had attributed the two-year delay to the five months which Management Board had taken to approve its submission, and Ministry over-optimism regarding the expected acquisition dates for the last two tower facilities. In response to the Committee's questions, the Ministry provided some additional information.

First, the Ministry emphasized that its final submission to Management Board in February 1986 had forecast that the project would be completed in 1991 rather than in 1990 as stated in the October 1985 submission. The Ministry noted that from this perspective, its first tower site would be completed only 7 months behind schedule, and its final site would be completed 13 months behind schedule.

The seven-month delay in completion of the first site was attributed to delays in the development of specifications for the microwave system, which were found to be more complex and time consuming than originally anticipated. The Committee asked why the Ministry had not begun development of the specifications at the same time as it was preparing the Implementation Alternatives Report. The Ministry indicated that it had not had sufficient personnel to carry out both tasks simultaneously. The Ministry also noted that, in addition to the delays in the development of the technical specifications, there had also been delays due to "considerable dialogue" as to how the microwave specifications would be tendered and compliance with those specifications would be achieved.

The 13-month delay in completion of the final site was explained as arising from delays in the acquisition of the tower sites. It was noted that the final Implementation Alternatives Report had forecast that these delays in acquisition might occur.

With respect to the increased costs which the Auditor had noted, the Ministry stated that these additional costs had been budgeted for and had been approved by Management Board in 1986. The Committee asked about the accuracy of the budgeting process, given that it accommodated completion in 1992 despite a forecast completion date of 1990. The Ministry did not feel that its budget had been inflated, and felt that it was efficient management to budget in light of the potential for fluctuating delivery dates and storage costs.



### Current Status of the Project

The Ministry felt that it had made good progress on the project in the past two years. Although the final site will not come onstream until 1992, the first site is expected to be operational in the fall of 1988, and others will be brought into operation as the project proceeds. Major events since the Auditor's review were noted:

- The Ministry had submitted its first annual progress report to Management Board in July 1987 and had received approval.
- The federal Department of Communications had given approval in principle to the implementation of a provincially-owned microwave link system in the summer of 1987, an essential step.
- The Ministry had completed or nearly completed awarding contracts for about 70% of the projected costs of the new system, including:
  - a contract with Motorola for additional user equipment;
  - an \$11 million contract for the supply of remote site buildings around the province; and
  - a contract of over \$25 million for the supply of the microwave linking system, which was in the final stages of being awarded.

The Committee asked what the implications would have been if the federal government had not approved the microwave system. The Ministry stated that it would have been "in great difficulty". In light of the importance of this approval, the Committee questioned the Ministry about its efforts to secure the approval. The Ministry explained that it had first applied for approval prior to 1983. In order to provide the approval, the federal government had required additional information, including the decision as to whether the system would be owned or linked. This information was not available until Management Board had made its decision on this matter in March 1986. However, the Ministry indicated, the federal government had given "reasonable assurances" that approval in principle would be given once the additional information was provided by the Ministry. This approval had in fact eventually been given.

### Potential for Further Delays and Cost Increases

The Committee questioned the Ministry at length about the prospects for further delays and cost increases in the project. The Ministry felt strongly



that the project would be brought in on time and on budget. It based this view on the fact that the project was at a more advanced stage than ever before, in that contracts were in the final stages of being awarded, and that following the awarding of the next major contract, the project would be at the implementation phase. Each of the contracts has a completion date attached to it, to which the contractor must adhere. In terms of cost, it was explained that contracts are checked against the budget before they are awarded, and are awarded only if they are within the budget.

The Committee asked whether the Ministry had identified potential obstacles to completion on time and on budget, and what measures it had taken to forestall or deal with them. The Ministry felt that external events, such as strikes, might detain the project, and stated, "Default on their part, even though it reflects on us, will be very substantially their responsibility, and if and when there is any default . . . we will take whatever action is necessary to ensure that we proceed, having regard to all the circumstances, as quickly as we can". The Ministry further stated that "from our perspective, there will be no delays on our account, and we will perform our task in accordance with the schedule we have planned out".

The Ministry noted that the project budget and schedule had some capacity to deal with contingencies. The budget has some capability to deal with the variations in tender bids, as well as a range of delivery dates. The Ministry did not discuss these in detail as the contracts are still being negotiated. The schedule also accommodates some delay, as tower construction is planned to take place largely in the summer months. As such, the off-season provides some slack time if needed.

The Committee noted that over \$80 million remained to be spent on the project, and asked whether the budget incorporated an allowance for inflation. The Ministry stated that the \$107 million which had been approved by Management Board in March 1986 had been in 1985 constant dollars, and acknowledged that the final cost of the project would be higher, once inflation had been taken into account. The Ministry was unable to say what its final costs would be after inflation, as the contracts had not all been awarded. It might be noted that the Manual of Administration requires contracts to be fixed price, although the Ministry did not specify whether this was the case on this project.

### Potential Obsolescence of the Project

The Committee expressed its concern about the shortcomings of the existing OPP telecommunications system, noting several examples of problems it had caused, and agreed that there was a clear need for a new system. However, the Committee questioned the Ministry at length as to whether the new telecommunications system would best meet the needs of the OPP, given that it would come into service 10 years behind the original schedule and that it had been originally forecast to meet the needs of the OPP "well into the 1990s". The Ministry felt strongly that the system would still be state of the art, that it would meet the needs of the OPP, and that it had the capability to adapt to changing technology and needs.

The Committee asked what measures the Ministry had taken to ensure that the system was broadly suited to the needs of all officers of the OPP, and that it was not over-specialized. The Ministry stated that a user survey had been done as part of the project planning in the early and mid-1980s, which had confirmed the problems of the old system, and the features that the new system should have. It was noted that the OPP is strongly in favour of the project and is most anxious that it be implemented with all possible speed.

The Deputy Minister further indicated that he had spent considerable time during the fall of 1985 and the spring of 1986 reviewing the technology and the approach in light of the OPP's needs and the approaches being taken by other police forces elsewhere. He was satisfied that the project provided an optimum combination of value for money and up-to-date technology.

The Ministry felt that the emergence of newer technology would not in itself render its system obsolete. Rather, the new system would be obsolete when it no longer met the needs of the OPP and when it was no longer possible to maintain and repair the system. The Ministry noted that the existing telecommunications system had reached this point some years ago, and outlined several measures it had taken to protect the new system against obsolescence:

- all equipment purchased to date is of the latest design and is in current production;
- most of the system features are software-based rather than hardware-based, and as such are easier to adapt; and

- capability for expansion in scope and scale has been built into the system:
  - interfaces to accommodate other computer-based systems in future;
  - ability to add extra tower sites, channels, or dispatch positions in future; and
  - capability to carry both voice and data communications.

The Ministry noted that such expansion would require additional expenditures. However, it was felt that these features would ensure that the system would meet any foreseeable user requirements for 15 to 20 years.

The Committee asked about the potential for efficiencies and cost savings through the use of the system by other ministries and agencies of government, and what measures if any the Ministry had taken in this regard. The Ministry felt that there was scope for shared usage of some of the hardware equipment, such as the communications towers, although the equipment in the cruisers would not be available. The Ministry stated that it had conducted discussions with several ministries and with non-government agencies including other police forces, and had identified 126 potential antenna accommodations for the ministries and 13 for the other agencies. It was noted that any such sharing would have to be accompanied by an appropriate sharing in the project's costs.

### **Deficiencies in Staffing of Coroner Posts**

The Office of the Chief Coroner is responsible for investigating sudden or unexpected deaths, carrying out public education on the prevention of such deaths, conducting inquests, ordering autopsies, and approving cremations and shipments of bodies out of Ontario. It investigates some 27,000 deaths a year, or about two-fifths of all deaths occurring in Ontario. The Office is administered by some two dozen staff, working out of head office and seven regions. It obtains coroner services from approximately 400 private physicians who are mostly compensated on a fee for service basis.

The Auditor's review of the Office of the Chief Coroner indicated that generally it was being run economically. However, the Auditor noted some concerns with respect to the efficiency and consistency of staffing of coroner posts.



### Potential Efficiencies Through Full-Time Coroners

The Auditor noted that two earlier studies had called for consideration of full-time coroners in areas with a high volume of cases. The Auditor endorsed this recommendation, noting the potential not only for cost savings, but also for increased efficiency and effectiveness, through faster service and greater proficiency on the part of full-time coroners.

In its response to the Auditor, the Ministry had indicated that this option had been reviewed in the past and had not been found to be viable, but that the Ministry was prepared to look at it again. In response to the Committee's questions, the Deputy Minister indicated that he had been reviewing the Auditor's recommendation and had considered various options, particularly in the Metro Toronto area. However, he stated, his position would not be finalized until later in the year.

The Committee asked about the Ministry's reasons for rejecting this option in the past. The Chief Coroner indicated that the primary reason was the anticipated difficulty in attracting candidates to full-time posts. It was noted that this option had been discussed with the 25 coroners in the Toronto area and that none of them had expressed an interest in full-time salaried coroner duties. This was attributed to several factors, including the pay scale for full-time coroners, the wish of most practitioners to carry out coroner work on a part-time basis so as to remain in their field, and the often variable hours of coroner duties.

### Failure to Follow Normal Selection Process

The Committee questioned the Ministry in detail regarding the Auditor's finding that 3 of the 13 coroners appointed in 1986 had not been chosen through the normal selection process. In two cases, the candidates who had been previously selected through the process were not appointed, and, instead, two other persons were given the positions. In the third case a candidate was appointed although the Regional Coroner had indicated there was no requirement for such an appointment.

The Ministry confirmed that the normal selection process for coroners was as described in the Auditor's report:



- the central office identifies a need for a coroner in a particular region;
- the Regional Coroner identifies potential candidates, in consultation with local medical and health authorities;
- the individual(s) identified are interviewed and a recommendation is forwarded to Ministry management; and
- the Ministry reviews the recommendation and submits it to the Lieutenant Governor in Council for approval. Successful candidates are appointed by Order in Council.

The Ministry felt that it had a responsibility to identify suitable candidates to the Minister, and indicated that by and large these recommendations are followed. However, the Ministry pointed out, neither the Minister nor Cabinet are bound to follow the recommendations of the Ministry's officials, nor is there any obligation to restrict appointments to candidates identified by the Ministry. It was felt that the Ministry did not have a monopoly on knowledge of candidates, and that members of Cabinet might well have knowledge of people with expertise who had escaped the attention of officials of the Ministry or Office of the Coroner. In response to the Committee's questions, the Ministry stated that it had not received any explanation as to why its recommendations as to candidates and need had not been followed in these instances.

The Committee asked about the duration of appointments. The Ministry stated that the appointments were not of fixed duration; candidates are appointed for life or until age 70. There is no formal process for termination of appointments; coroners serve at the pleasure of the Lieutenant-Governor. The Ministry noted that this process was used only for part-time coroners paid on a fee for service basis, and that the full-time staff of the Coroner's Office are selected in accordance with civil service recruitment procedures.

The Committee expressed concern about the potential impacts of this selection process on the efficiency and effectiveness of the Office's work, noting that the position required sensitivity and compassion as well as professional skills. The Ministry concurred, and stated the view that the current process allowed these various requirements to be met.

The Ministry also addressed the Auditor's finding that a coroner had been appointed in an area where no need had been identified, noting that since a fee for service system is used, there are no incremental costs involved in the

appointment of additional coroners. Indeed, it was felt, this offered flexibility, in that the community could then choose to use the services of those coroners in whom it had the most confidence, while coroners less suited to their needs would not be used as frequently. The Ministry acknowledged, however, that appointment of a large number of coroners could result in less activity for each coroner and hence less experience and proficiency.

The Committee asked what proportion of coroners were women. The Ministry indicated that the number was fairly low — about 10, out of 385 part-time coroners. The Ministry stated that women had not applied for the positions in the past, and inferred from this that women were not interested in the work. It was not made clear how they were to apply, given the invitational nature of the selection process. However, the Ministry commented, in the past couple of years, younger practitioners, including women, are "applying and showing some interest right across the province".

The Committee termed this selection process a bizarre and inappropriate approach to the staffing of specialized professional positions of such importance to the community. Several members of the Committee called for a review of the selection and appointment process with a view to establishing an open and professional selection process for the staffing of coroners' positions.

### **Delay and Duplication in Development of New Computer System**

The Committee also questioned the Ministry on the Auditor's findings regarding inefficiencies in the development of a new computer system for the Coroner's Office to analyze causes of death across Ontario. The Auditor noted that in 1971, the Ontario Law Reform Commission had recommended the development of such a system. In 1984, the Ministry submitted a Management Board proposal for an automated system to replace its manual systems. Management Board approved the plan to automate on condition that it be analyzed in greater depth. This consultant study identified that the Ministry's original cost estimates were low.

The Auditor noted that the Ministry then began to develop a system in-house which could be operated on the existing OPP mainframe, prior to obtaining formal approval of its approach. The Ministry did, however, "keep Management Board informed". A proposal was submitted for final approval in

March 1986. The approval from Management Board, when received in December 1986, did not approve the use of the mainframe, and hence the Ministry chose to use microcomputers. By that time, the system was 80% complete. In consequence:

- an additional \$140,000 will have to be spent in converting the software; and
- the project will be delayed for an additional 13 months.

In its response to the Auditor, the Ministry indicated that it had proceeded with system development prior to formal approval on the assumption that its approach was acceptable to Management Board, and in order to complete system development as soon as possible. The increased costs were attributed to Management Board's decision to use microcomputers rather than the mainframe. With respect to the delay noted by the Auditor, the Ministry stated that the project would have been even more delayed had the Ministry not begun software development as it had.

Upon Committee questioning, the Ministry further explained that in the past, Management Board had issued a minute which prohibited the use of the OPP mainframe for anything other than police purposes. However, the Ministry was developing a new Ministry-wide system, and, in the interim, was anxious to avoid the proliferation of different technologies, hence it opted to use the OPP mainframe to develop the coroner's system.

The Ministry had discussed its systems plans with staff of the Management Board Secretariat, and had inferred that Management Board would reverse its decision and permit use of the OPP mainframe. It was indicated that when the matter came before more senior Management Board staff, they had confirmed their original decision. Hence the Ministry had decided to use microcomputers instead and convert the software. It appeared that the microcomputers themselves accounted for \$60,000 of the \$140,000 increase noted by the Auditor. It was stated that when the new Ministry-wide system was in place, the coroner system would be converted again and the microcomputers would be "redeployed to other uses". The Ministry reiterated its view that its approach had involved less delay than if it had waited for approval.



## Recommendations

### OPP Telecommunications System

The Committee wishes to express its concern about the continuing delays and cost escalation of the OPP Telecommunications Project. The Committee notes the assurances of the Ministry that past difficulties have been overcome and that the project will be completed on time and on budget. The Committee requests the Provincial Auditor review the annual progress reports which the Ministry is required to submit to Management Board, including reports to date, and to report any concerns regarding costs and progress to the Committee.

### Staffing of Coroner Posts

#### Full-Time Coroners

The Committee concurs with the Auditor's view that the use of full-time coroners in some areas of the province offers potential gains in economy and effectiveness. The Committee notes the Deputy Minister's statement that he was reviewing this recommendation and expected to finalize his position in the fall of 1988. In light of the fact that a change of deputy ministers has taken place in the Ministry, it is the decision of the Committee that the Clerk of the Committee write to the Deputy Minister and remind him of his predecessor's commitment.

The Committee recommends that the Deputy Minister inform the Committee of the results of his deliberations on this matter by December 31, 1988, and that the Deputy Minister further report to the Committee his views on the feasibility of a pilot project on full-time coroners, in a large metropolitan area.

#### Selection Process

The Committee does not find the selection and appointment process for part-time coroners to be an appropriate approach to the staffing of specialized professional positions of substantial importance to the community. The Committee recommends that the Ministry review its selection and appointment process for part-time coroners, and provide a report to the Committee on its



findings by December 31, 1988. The review should include the following matters:

- establishment of a job description for coroners;
- the establishment of an open professional selection process;
- the scope to recruit coroners from among professions other than the medical profession;
- the professional development and training needs of coroners, the extent of programs presently in place, and the scope for strengthened training;
- the establishment of a fixed term of appointment for coroners, and the Ministry's views on what time period might be appropriate; and
- the establishment of a system to review the competency of coroners, including formal channels for public expression of concerns regarding coroners' performance of their duties.

#### Computer System

The Committee notes that the Ministry proceeded with the development of a computer system on the OPP mainframe despite the existence of a Management Board minute explicitly stating that the OPP computer was to be used only for police purposes. The Committee does not feel that the Ministry's desire to minimize delay justified contravening Management Board direction, and is of the view that the Ministry should have awaited formal approval before proceeding with its project.

#### General Matter

It is the decision of the Committee that the Clerk of the Committee send a copy of this report to the Standing Committee on the Administration of Justice, in the belief that it may be of interest to them should they decide to undertake consideration of any matters related to this report. The Committee requests the Provincial Auditor or any staff he may wish to designate to appear before the Standing Committee on the Administration of Justice to discuss his concerns, should the Standing Committee on the Administration of Justice request his assistance.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

February - May 1988

Tuesday, 23 February

10:00 a.m.

1. 1987 Annual Report of the  
Provincial Auditor

Re: Section 4.11

Excess Funding and Non-  
Compliance with Guidelines,  
Youth Opportunities Activity

From the Ministry of Skills  
Development:

Glenna Carr  
Deputy Minister

William Wolfson  
Director  
Youth Employment Services Branch

Frank Kidd  
Executive Director  
Finance and Administration

2:00 p.m.

1. 1987 Annual Report of the  
Provincial Auditor

Re: Section 4.12

Observations on the OPP  
Telecommunications Project  
and Office of the Chief Coroner

From the Ministry of the Solicitor  
General:

John D. Takach  
Deputy Solicitor General

Dean Paquette  
Assistant Deputy Minister  
Public Safety Division

David Mailer  
Director  
Internal Audit Branch

Earl Gibson  
Acting General Manager  
OPP Telecommunications Project

Lorne H. Edwards  
Executive Director  
Program Resources Division

Robert L. Fletcher  
Director  
Information Technology Services  
Branch

Dr. Ross C. Bennett  
Chief Coroner

Wednesday, 24 February

10:00 a.m.            1.   1987 Annual Report of the  
                         Provincial Auditor

Re:                   Section 4.5

Improved Administration  
Required, Institutional  
Services Activity

From the Ministry of Correctional  
Services:

Robert M. McDonald  
Deputy Minister

Neil T. McKerrell  
Director  
Offender Programming and  
Operational Support

Dr. P.W. Humphries  
Senior Medical Advisor and  
Manager of Health Services

2:00 p.m.

1987 Annual Report of the  
Provincial Auditor

Re: Section 3.4

Improvements Needed, Ministry  
Internal Audit Operations

From Management Board Secretariat:

John Sloan  
Secretary

Domenic Alfieri  
Executive Coordinator  
Management Policy Division

Allan Rae  
Audit Advisor  
Management Policy Division

Thursday, 28 April

10:00 a.m.

Re: 1987 Annual Report  
of Provincial Auditor

Section 4.4  
Additional Monitoring  
and Verification of  
Information Required,  
Ontario Student Assistance  
Program

From the Ministry of Colleges  
and Universities:

Dr. Thomas Brzustowski  
Deputy Minister

Richard Kleiman  
Director  
Student Awards Branch

Douglas Anderson  
Manager  
Verification, Student Awards Branch

Thursday, 19 May

10:00 a.m.      Re:      1987 Annual Report of the Provincial Auditor

Section 4.10  
Weak Management Practices  
Mines and Minerals Program

From the Ministry of Northern Development  
and Mines:

Brock Smith  
Deputy Minister

Ron Vrancart  
Executive Director  
Corporate Services Division

Dennis Tieman  
Assistant Deputy Minister  
Mines and Minerals Division

Dr. Victor Milne  
Director  
Ontario Geological Survey  
Mines and Minerals Division

Dr. John Gammon  
Director  
Mineral Development and Lands Branch  
Mines and Minerals Division



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Summary of 1988 Reports

FIRST INTERIM REPORT, 1988

**Subjects:** The Provincial Auditor's 1987 Report, Section 4.8  
Weak Procedures and Controls, Health Insurance Program  
Ministry of Health

The Provincial Auditor's 1987 Report, Section 4.9  
Problems in Mental Health Care  
Ministry of Health

**Tabled:** May 26, 1988

**Summary:** On February 16, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of Health concerning the Provincial Auditor's findings of weaknesses in three computer systems which support the delivery of the Ontario Health Insurance Program (OHIP). The Auditor had concluded that the computer system which processes OHIP information and payments is outmoded and unresponsive to the present-day needs of OHIP and had not kept pace with advances in computer system design. The Auditor had also found that large payments were being made for out-of-country treatment of psychiatric and addiction patients, and had identified basic errors in the operation of the system for payment of out-of-province claims.

The Committee recommended that the Ministry develop and implement a new computer system to overcome the weaknesses identified by the Auditor, and that in the interim it take all feasible measures to address the various deficiencies identified by the Auditor. The Committee also recommended that the Ministry work to ensure that Ontario patients receive suitable treatment within Ontario, and that the out-of-province claims system be enhanced to prevent the errors noted by the Auditor.

On February 17 and 18, the Committee questioned officials of the Ministry of Health regarding the Auditor's findings of shortcomings in the system to provide and manage mental health care in the province. The Auditor's investigation had identified some major concerns:

- deficiencies in the staffing, facilities, and utilization of the ten provincial psychiatric hospitals;

- inadequate management information systems; and
- serious inadequacies in the availability and coordination of housing alternatives and community support available to ex-psychiatric patients.

The Committee heard from the Ministry that a wide range of initiatives were underway to address these concerns. The Committee noted its intention to assess those initiatives through visits to a number of facilities in the fall of 1988, to recall the Ministry as necessary, and to report on progress in its final report for 1988.

The Committee recommended that the Ministry upgrade its management information systems, review its licensing requirements for homes for special care, and ensure adequate evaluation capabilities for its increased efforts in community mental health. The Committee also recommended that the Standing Committee on Social Development consider undertaking a comprehensive study of the housing and other community and mental health needs of ex-psychiatric patients, the adequacy of current and planned services, and options to overcome deficiencies.

## SPECIAL REPORT ON THE ESTIMATES PROCESS

**Subject:** The Provincial Auditor's 1987 Report, Sections 2.1 and 2.2  
Accountability of Government to the Legislature  
The Estimates Process – Maligned and Ineffective

**Tabled:** June 2, 1988

**Summary:** On April 14, 1988, the Standing Committee on Public Accounts reviewed the Auditor's concerns regarding the Estimates process in the Ontario Legislature, and his recommendations for reform of the process and strengthening of the accountability cycle. The Auditor had found a number of weaknesses in the Estimates process:

- procedural problems, including delays in review, inconsistencies in the level of scrutiny relative to expenditures, deviations from the planned schedule, and the inability to change items in the Estimates;
- deficient information on which to base scrutiny;
- pressures on the time and resources of members.

Linked to these problems, the Auditor found a lack of attention and commitment by members to the process. Noting the critical importance of the Estimates process to accountability, the Auditor recommended the establishment of a separate standing committee on Estimates, which would carry out in-depth scrutiny of a selected number of Estimates each year. Closing of the accountability loop would be achieved through subsequent review of those ministries by the Auditor and the Public Accounts Committee.

The Committee discussed these findings and recommendations, taking into account past concerns expressed by committees of the Legislature, and reform initiatives elsewhere. The Committee recommended that:

- a Standing Committee on the Estimates, chaired by a member of the Opposition, be established to conduct annual in-depth scrutiny of selected Ministry Estimates. The membership of the Estimates Committee was to include three members from the Public Accounts Committee, one from each party;
- six sets of Estimates per year be chosen for review, by all three parties, using a cycle of Official Opposition, Third Party, and Government Party, and that this be supplemented by a system of written questions to other ministries on matters of specific interest, and review of these other ministries where warranted;
- the Estimates Committee be given the power to recommend the reallocation of funding within each vote;
- the Estimates Committee, when established, give priority to the development of a schedule for completion of scrutiny, the review of the form and content of Estimates information, and the identification of necessary committee resources.





## SECOND INTERIM REPORT, 1988

**Subject:** The Provincial Auditor's 1987 Report, Section 4.7  
Improved Pollution Enforcement Procedures Required  
Ministry of Environment

**Tabled:** June 16, 1988

**Summary:** On February 22, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of the Environment on the Auditor's findings of weaknesses in pollution control procedures and operations, and deficiencies in administrative practices. The Auditor had found that the Ministry:

- had chosen not to independently verify data submitted under the Countdown Acid Rain program by contributors of acid rain emissions;
- was deficient in regard to follow-up of complaints and did too few self-initiated inspections;
- had been inactive in regard to a large number of companies discharging contaminants directly into Ontario's waterways, though it was seeking to address this through a proposed Municipal-Industrial Strategy for Abatement (MISA);
- had failed in several instances to comply with tendering procedures, and had not utilized its vehicles economically — echoing criticisms in earlier Auditor's Reports.

The Committee was informed that the Ministry had implemented an independent verification system for acid rain emissions, heard the Ministry's explanations that growth in the number of complaints and the demands of new environmental protection activities had placed strains on its complaint follow-up and inspection activities, and discussed progress on MISA. The Ministry also acknowledged weaknesses in its administrative practices.

The Committee recommended that the Ministry:

- provide a comprehensive response within 120 days of the tabling of the report, outlining its acid rain monitoring activities;
- develop a formal system and criteria to analyze and prioritize complaints, integrate its inspection activities into this system, and review the allocation of its staff, to ensure that an established minimum proportion of its resources are devoted to proactive environmental control activities; and
- give the highest priority to the implementation of MISA, and, in the interim, strengthen its enforcement activities using existing regulatory instruments.

The Committee also noted the Ministry's commitments to improve its administrative practices, and requested the Provincial Auditor to review performance in this area as part of his next review of the Ministry.



### THIRD INTERIM REPORT, 1988

**Subject:** The Provincial Auditor's 1987 Report, Section 5.2  
Operating Deficiencies, Liquor Control Board of Ontario

**Tabled:** June 29, 1988

**Summary:** On February 25, 1988, the Standing Committee on Public Accounts questioned officials of the Ministry of Consumer and Commercial Relations and the Liquor Control Board of Ontario on the Auditor's findings of various operating deficiencies at the LCBO. The LCBO has been the subject of scrutiny by the Public Accounts Committee and the Auditor every year since 1983. The Auditor's 1987 Report suggested that a number of the problems identified in the past had not been satisfactorily resolved at the time of his audit.

The Auditor reviewed liquor inventory levels and estimated that the LCBO could reduce its inventory by \$78 million, or 40% — a proportion comparable to that found in 1983. The Auditor also found that the LCBO's controls over its listing and delisting policies were inadequate. As well, the Auditor noted that the new, automated Durham warehouse "continues to be plagued with numerous operating problems". Finally, the Auditor identified overstaffing, such that scope existed to reduce payroll and benefits by an estimated 18% — \$27 million, out of a 1986 payroll of \$142 million.

In its hearing, the Committee was informed that the LCBO was in the midst of a major transition which was intended to modernize its operations and improve its efficiency. A major reorganization had occurred in November 1987 which had resulted in a number of vacancies at the senior management level, which were still being staffed at the time of the Committee's investigation. A number of the LCBO's policies and procedures were also being revised, including its listing and product policy, its distribution system, its performance measuring and monitoring system, its management information systems, and its staffing criteria. As well, new point-of-sale technology was being introduced to modernize the LCBO's operations.

The Committee heard that some of the specific deficiencies noted by the Auditor had been addressed: delisted stock had been disposed of, and improved efficiency had been achieved at the Durham warehouse. However, most of the initiatives were still in the planning and development stage at the time of the Committee's hearing, and were expected to be finalized in the six months following the hearing.

The Committee recommended that the LCBO submit an interim report within 120 days of the tabling of its Report, describing progress on the various initiatives, and that it provide a comprehensive report by March 31, 1989, on further progress and achievements. The Committee noted its intention to review the reports, and to recall the LCBO for questioning if the Committee deemed it necessary.





#### FOURTH INTERIM REPORT

**Subject:** The Provincial Auditor's 1987 Report, Section 5.4  
Operating Concerns, Ontario Housing Corporation

**Tabled:** July 6, 1988

**Summary:** On February 25, 1988, the Public Accounts Committee reviewed the Auditor's findings of questionable operating practices at the Ontario Housing Corporation (OHC). The Auditor had identified several concerns in the course of his annual audit of OHC's operations:

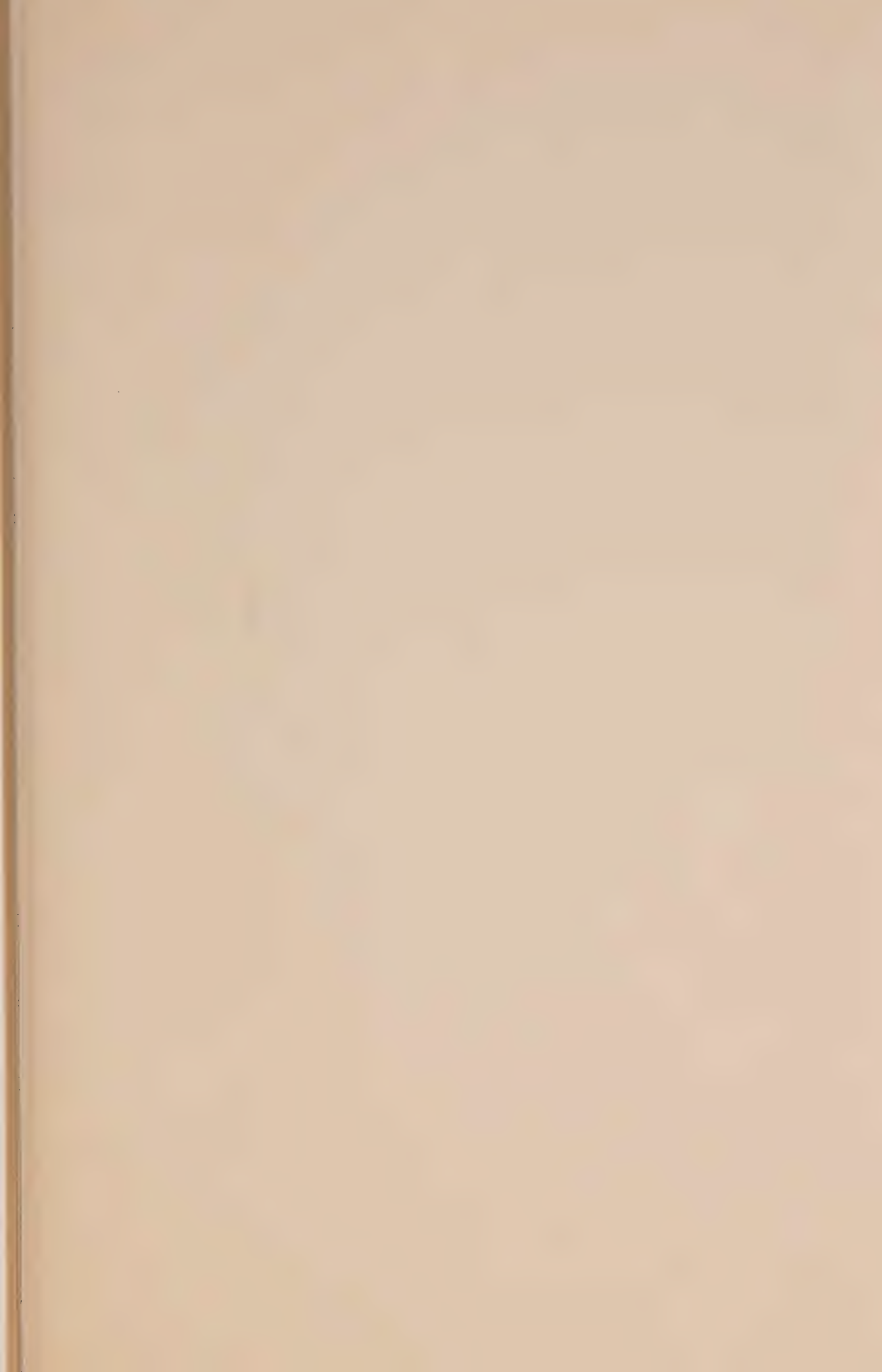
- several of the Metropolitan Toronto Housing Authority's (MTHA) privately managed projects had experienced significant unauthorized cost overruns, and had incurred questionable expenditures which were subsequently investigated by the OHC, the Solicitor General, and the Ontario Provincial Police;
- maintenance staff of the MTHA had a level of workers' compensation claims in 1986 which was five times as high as the average for janitorial workers and in fact exceeded the level among the most hazardous occupations;
- one of the three housing authorities visited had awarded most of its 1986 contracts without public tender.

The Committee called for the Provincial Auditor to scrutinize the various measures which the Ministry was undertaking to address these concerns, in the course of his annual audits of the Ontario Housing Corporation. The Committee further recommended that:

- the management information system being developed by the Ministry have the capability to cost and budget for individual housing projects, and be compatible and comparable with related information systems at the Ministry of Government Services;
- the Ministry provide an explanation of its system for cost comparisons among housing authorities, and copies of the most recent comparisons among and within housing authorities;
- the Ministry provide a progress report on the development by the MTHA and the union of a modified work plan to reduce time lost to workers' compensation claims, including measures for rehabilitation as well as a system to assign workers to lighter duties until recovered;
- the Ministry also report the most recent statistics, covering at least one year previous, for workers' compensation claims and sick leave for each region of the MTHA, and describe the status, activities, and grievances lodged by the health and safety committees at MTHA housing projects;
- as well, the Ministry provide a status report on progress in implementing the 119 recommendations of the 1980 Report regarding housing of the Standing Committee on the Administration of Justice, given the Ministry's statement that 88 recommendations had been implemented.

All reports are to be provided within 120 days of the tabling of the Committee's report.









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# Standing Committee on Public Accounts



Sixth Interim Report  
1988

1st Session 34th Parliament  
37 Elizabeth II





LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

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STANDING COMMITTEE  
ON PUBLIC ACCOUNTS

Sixth Interim Report  
1988





STANDING COMMITTEE ON  
PUBLIC ACCOUNTS



COMITÉ PERMANENT SUR  
LES COMPTES PUBLICS

LEGISLATIVE ASSEMBLY  
ASSEMBLÉE LÉGISLATIVE

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Queen's Park  
January 1989

The Honourable Hugh Edighoffer, M.P.P.,  
Speaker of the Legislative Assembly.

Sir,

Your Standing Committee on Public Accounts has the honour  
to present its Report and commends it to the House.

A handwritten signature in dark ink, appearing to read 'Ed Philip'.

Ed Philip, M.P.P.  
Chairman.



STANDING COMMITTEE ON PUBLIC ACCOUNTS

MEMBERSHIP AS OF WEDNESDAY, 26 OCTOBER 1988

ED PHILIP  
Chairman

PETER ADAMS

SHELLEY MARTEL

BILL BALLINGER

CINDY NICHOLAS

SHIRLEY COLLINS

BRAD NIXON

DON COUSENS

GILLES POULIOT

JOAN FAWCETT

NOBLE VILLENEUVE

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Douglas Arnott  
Clerk of the Committee

Wendy MacDonald  
Research Officer





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## INTRODUCTION

On November 17, 1988, the Standing Committee on Public Accounts investigated the concerns of the Provincial Auditor identified in the course of his annual audit of the St. Lawrence Parks Commission (SLPC). During the 1986-87 review, the Auditor had found substantial duplication in administration, such that amalgamation of activities would allow expenditures on administration salaries to be reduced by over one-third, or \$430,000. The Auditor had also found that utilization of facilities was very low in the fall, and that the cost of seasonal salaries alone far exceeded revenues. The Auditor estimated that closing of the historical attractions alone would lead to savings of over \$200,000.

The St. Lawrence Parks Commission (then the Ontario-St. Lawrence Development Commission) was established in 1955 to preserve the historic past and prime recreational lands of southeastern Ontario. The SLPC is classified as a Schedule 1 agency of the Government of Ontario, and operates three historical attractions (Upper Canada Village, Old Fort Henry, and Fairfield Historical Park), a 4,000-hectare park system with 15 campgrounds and day-use parks, and a number of other attractions such as a marina, golf course, bird sanctuary, and two scenic parkways. The season extends from mid-May to mid-October.

The SLPC's operations have experienced a growing deficit over the years, and a consistent pattern of substantial Management Board Orders. Revenues are currently about one-third of expenditures. The SLPC is a major seasonal employer in southeastern Ontario. Its staff have declined in number slightly over the years, to the present level of 105 full-time and 620 part-time.

The Public Accounts Committee reviewed the Auditor's concerns with the Deputy Minister of the Ministry of Tourism and Recreation, and with officials of the SLPC, including the Chairman, the General Manager, and the Coordinator, finance and administration.





## EXCESSIVE ADMINISTRATIVE EXPENSES

The Committee questioned the agency about the Auditor's findings of significant differences between the administrative salary expenses of the St. Lawrence Parks Commission and those of the Niagara Parks Commission, as noted below. While acknowledging differences in the relative size and geographic scale of the operations, the Auditor had felt they were sufficiently similar to enable a general comparison.

	SLPC	NPC
Revenue	\$4.4 million	\$35.8 million
Expenditures	\$12.1 million	\$28.9 million
Administrative Salaries	\$1.2 million	\$1.1 million
Admin. Salaries : Revenues	26.7%	3.1%
Admin. Salaries : Expenses	9.4%	3.8%

In discussion with the Auditor at the time of the audit, the SLPC had acknowledged duplication of administrative effort in a number of areas, including payroll, accounts payable, purchasing, and revenue, due to the operation of two similar offices, at the head office at Morrisburg and at the Merchandising, Parks, and Recreation Division located at Upper Canada Village. The SLPC had indicated to the Auditor that it was possible to reduce the ratio of administrative salaries by over one-third, to 6% of expenses, meaning a saving of about \$430,000. The SLPC was then undertaking a three-year, \$900,000 renovation of the old restaurant at Upper Canada Village to accommodate the amalgamation of both offices. Following the amalgamation of staff, a review of administration staffing needs was planned by the SLPC. Further commitments by the Chairman of the SLPC to the streamlining and downsizing of the agency were expressed in a formal response to the Auditor, included in the 1987 Report.

The Public Accounts Committee noted that some reorganization measures had been taken in 1986-87 to rationalize, centralize, and modernize a previously dispersed operation. Conceptually, the new structure involved a division into administrative or staff functions (finance, personnel, and communications) and operational or line functions (maintenance, curatorial, and revenue operations). However, the division had not been fully carried through at the time of the Auditor's review, since the Merchandising, Parks and Recreation Division still had its own internal administrative functions, thus duplicating the activities of the head office.



In his opening statement to the Committee at the hearings, the Chairman of the SLPC stated that steps were being taken to address these concerns through centralization of all services in a single administrative headquarters and rationalization of administrative functions. Planning for the new organization had been completed at the time of the hearing, and implementation was expected to be achieved before the commencement of the 1989 operating season.

The Committee asked about the SLPC's decision to renovate its administrative office space prior to determining the number of administrative staff that it would have following the amalgamation. The SLPC indicated that it had a general idea of the number of final staff prior to commencing the work, and that an open office concept had been used which had a good deal of flexibility in its design. Hence it was felt that the new office space would be appropriate to the SLPC's eventual needs.

The Committee questioned the witnesses about a discrepancy in staffing figures reported by the Ministry and by the agency. The Ministry's 1988-89 Estimates Briefing Book reported the number of classified positions in the SLPC as 122, while the SLPC had indicated to the Committee that they had 104 such positions. It was established that the SLPC's figure of 104 positions referred to the number of positions actually filled at the time, rather than the approved complement. The difference of 18 positions consisted of vacancies. The SLPC indicated that it planned to fill some of these vacancies upon final approval of the new organizational structure for administration.

The Committee asked the Ministry if it was normal practice for an agency to be able to hold a number of full-time positions vacant pending decisions on future staffing needs. The Deputy Minister indicated that the SLPC's salary and wage budget was subject to the Estimates process. With the exception of the General Manager's position, which was controlled by Management Board, the SLPC was then free to "utilize the salary and wage allocation in any way it sees fit to accomplish its objectives. . . they can mix and match permanent staff, permanent part-time staff, seasonal staff, student staff in order to accommodate the needs and achieve the objectives of the Commission."

The Committee also questioned the SLPC about its ratio of operational and field jobs to head office jobs. It was noted that there was a perception in some quarters that various recent cutbacks in field jobs such as interpretative positions had been carried out





while head office jobs had been protected. It was suggested that the SLPC's obligations as the operator of a tourist attraction and as a major local employer could be most effectively carried out if operational and field jobs of a seasonal nature were maximized. In response, the SLPC indicated that it did not feel that it was top-heavy or had excessive management staff. The SLPC further noted that although there had indeed been cutbacks in operational staff due to government-wide salary restraints, the number of administrative staff had also decreased.

The Committee also questioned the SLPC about its approach to implementing the government-wide restraint program of a two per cent cut in salaries. The SLPC had reduced the hours of the seasonal staff and student staff by some two hours a week to a level of 36½ hours, the minimum necessary to qualify as full-time and receive the related benefits. The Committee expressed concern about the impact of the cuts on the staff in question. The SLPC explained that spreading the cut among all staff was felt to be fairer than laying off individuals and closing down aspects of attractions. The Deputy Minister further noted that the SLPC had limited options, in that the full-time staff enjoyed a range of protections such that the brunt of the cutback had to fall on the seasonal staff.

Given the Deputy Minister's statement that the SLPC controlled the use of its salary and wage budget, including its allocation among full-time and seasonal staff, it was not clear why the savings effected through the 18 full-time vacancies noted earlier could not have provided the savings called for by the restraint program.

### **POTENTIAL BENEFITS FROM SHORTENING OPERATING SEASON**

The Committee also questioned the SLPC about the Auditor's view that benefits could be realized by shortening the operating season. The SLPC's operating season for its 15 parks and campgrounds generally runs from mid-May to mid-October. The length of the operating season has not been recently reviewed. The Auditor found that operating costs were significantly in excess of revenues during the shoulder seasons at the various attractions. For example:

- at all parks, salaries of seasonal staff greatly exceeded revenues in May and October;



- occupancy rates after Labour Day at the campgrounds averaged 9%, while occupancy rates for July averaged 50%;
- at Upper Canada Village and Old Fort Henry, seasonal staff salaries alone were 43% higher than revenues received for the period after Labour Day. The Auditor estimated that if those two facilities alone were closed after Labour Day, the SLPC could save \$200,000 in salaries.

The Auditor acknowledged that social and economic impacts were a consideration, but recommended that the SLPC review the length of its operating season and consider earlier closing dates for those parks and attractions which operated at large deficits in the fall season.

In a written response to the Auditor's recommendation, the Chairman noted the SLPC's responsibility to carry out the programs and policies of the government, and that these have "either an economic or a social orientation. . . This concept, that the Commission is entrusted with both a social and economic mandate, is critical in any analysis of how the Commission functions." The Chairman noted that "significant downsizing of complement" had been achieved through privatization of certain elements of the program and review and termination of other redundant components. In conclusion, he stated that he accepted the spirit of the Auditor's recommendation and that he would continue to have staff define and refine the SLPC's methodology.

In his opening remarks at the hearings, the Chairman noted the importance of a long operating season at the SLPC to the development of a four-season tourist industry in Ontario. It was noted that while the SLPC's operating costs were high relative to revenues, the economic benefit to the region also had to be taken into account. The Committee asked if any study had ever been done of these economic benefits, i.e. the spin-off and multiplier impacts of the SLPC on the local economy. The Chairman indicated that he was not aware of any such studies. He made a commitment that the SLPC would review the length of the operating season to ensure that it was cost-effective, taking all factors into account. The Deputy Minister expressed support for the Chairman's statements.

In general, the Chairman felt that the answer to the Auditor's concerns about shoulder season operating losses lay in increased marketing to improve attendance, rather than in





a shorter season. Subsequent questioning indicated that attendance had actually fallen by some 4% in the 1988 operating season. Revenues had risen by 3%, due to the inflation factor.

The Committee noted that the SLPC's formal mandate did not make any reference to a social mission, with the exception of section 5(2) of the St. Lawrence Parks Commission Act, which gives the SLPC the duty to investigate and inquire into any matter affecting the welfare of any municipality or individual within the counties in its jurisdiction, upon request by a member of Executive Council or any such municipality or inhabitant. The thrust of the Act is operational, stating that it is the duty of the Commission to control, manage, operate, and maintain the parks within its area of jurisdiction, also defined in the Act. The SLPC's objectives, as set out in the Ministry's Estimates briefing books prior to this year, include "to encourage and promote the tourism industry in Eastern Ontario year-round for the economic benefit of the Province." The current Estimates Briefing Book, for 1988-89, restates this objective to read ". . . for the economic and social benefit of that region and the Province" (emphasis added).

The Committee indicated that its concern lay, not with the actual social and economic contribution of the SLPC to the region, but rather with the lack of a clear definition and authorization of that role. It was asked whether the SLPC was overstepping its legislative mandate.

The Deputy Minister indicated that a new Memorandum of Understanding was being negotiated between the Ministry and the SLPC. According to the Deputy Minister, the draft objectives recharacterize the social objectives as economic objectives, in terms of their impact on eastern Ontario's economy and employment levels.

The Committee called for the Ministry to review the Act and the Memorandum of Understanding in conjunction with the SLPC, clarify its objectives with respect to the economic and social mission of the SLPC, and report back to the Committee on whether the SLPC was overstepping its mandate and whether any modifications to its mandate were required.

The Committee noted that the lack of clear objectives made it difficult to establish an appropriate deficit target for the SLPC. It was noted that the deficit had been increasing much faster than revenues for a number of years, and that it was not clear



whether any end was in sight. Further to the issue of budget planning, the Committee asked why the SLPC had repeatedly found it necessary in recent years to obtain additional funds during the fiscal year through Management Board Orders.

The Deputy Minister first addressed the issue of the Management Board Orders. A portion of these were attributed to the accommodation for the annual salary awards, which by budgetary practice are normally not incorporated into the estimates. It was also noted by the Chairman that revenues from souvenir sales had to be returned to the Consolidated Fund, rather than being retained to purchase more inventory. As such, heavier-than-expected sales could deplete the budget for purchasing of such stock, leading to a need for additional funds which might then require a Management Board Order.

The remaining Management Board Orders were largely due to the Ministry's practice in the final quarter of each fiscal year of allocating funds freed up by underspending throughout the Ministry to such uses as maintenance of capital facilities operated by the agencies. Since this involved transfers of funds from ministry to agency, Management Board Orders were required. The Committee observed that agencies were unlikely to turn down an offer of funds even if need was not severe. In response, the Deputy Minister stressed that the funds were used for essential maintenance and were economically expended. The Committee suggested that if the work was indeed of an essential nature, a long-term maintenance and capital upgrading plan would be preferable to these ad hoc allocations of funds. The Ministry and the SLPC both stated that they did indeed have a long-range maintenance plan, but that in the past, funding had not always been available, due to resource constraints. It was noted that starting in 1987-88, substantial capital funding is being provided to the SLPC for the first time in a number of years (approximately \$1.5 million/year). To date, these funds have been primarily used on repairs, rather than new construction.

The Committee also asked about the SLPC's capability to monitor its various facilities so as to identify profits and losses day by day, given that it has recently computerized its operations. The SLPC indicated that profits and losses are tracked on a monthly basis, and that attendance and revenue are tracked on a biweekly basis.

The Committee called for the Ministry and the SLPC to review the history of the SLPC's deficit and report to the Committee on the SLPC's plans for the next five years,





identifying its deficit targets in light of its objectives. The Committee indicated that the Provincial Auditor would be requested to review the report and assess whether the targets were reasonable.

## **RECOMMENDATIONS**

### **Reduction of Duplication in Administrative Staffing**

The Committee notes the high number of full-time vacancies in the St. Lawrence Parks Commission due to the reduction in duplication of administrative positions as identified by the Auditor. The Committee recommends that the Commission include in its deficit management plan (discussed below), the contribution that elimination of these positions might make to reduction of the Commission's future deficits.

### **Clarification of the SLPC's Mandate and Objectives**

The Committee notes that the mandate and objectives of the St. Lawrence Parks Commission lack clarity. The Committee further feels that too little is known about the spin-off benefits of the Commission on the region, making it difficult to establish what the Commission's appropriate deficit level, if any, might be. In consequence, the Committee wishes to express its concern that deficits have been rising significantly in recent years, and that no clear long-term plan exists for the containment or even the future expected level of the deficit.

The Committee recommends that:

- Independent studies should be commissioned by the Ministry of Tourism and Recreation of:
  - the Commission's economic and employment impacts on the region and on the province's tourism industry, to identify spin-offs, multiplier effects, and any other benefits which exist, in the context of their costs; and
  - the Commission's marketing and promotional activities, including recommendations for the improvement of attendance at Commission facilities.



- Based on the findings of these studies, the St. Lawrence Parks Commission should develop a long-term (minimum five-year) operating plan. The plan should set deficit targets and should justify them in terms of their contribution to clearly stated regional and tourism objectives. As such, the plan should include objectives for expenditures, revenues, and attendance, and a capital expenditure plan and a marketing plan designed to attain these objectives. This plan is to be submitted for the Public Accounts Committee for review by October 31, 1989.
- Using these clarified objectives, the Ministry and the St. Lawrence Parks Commission are requested to report back to the Committee by the same date on any required clarifications to the Commission's legislative mandate and Memorandum of Understanding.

### Other Matter

The Committee notes the concern expressed by the Chairman of the St. Lawrence Parks Commission regarding the occasional need for Management Board Orders to replenish inventory of souvenirs when sales exceed forecast levels. The Committee requests the Provincial Auditor to enter into discussions with the Commission regarding reduction of constraints on the economy and efficiency of the Commission's souvenir sales function.





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Terms of Reference

Standing Order 90 (i)

Standing Committee on Public Accounts which is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which documents shall be deemed to have been permanently referred to the Committee as they become available;



STANDING COMMITTEE ON PUBLIC ACCOUNTS

Schedule of Hearings

November 1988

Thursday, 17 November

10:00 a.m.                      1.    1987 Annual Report of the  
   Provincial Auditor

Re:                      Section 5.5

Potential for Savings in  
Administration Costs

From the Ministry of Tourism and  
Recreation:

James W. Keenan  
Deputy Minister

From the St. Lawrence Parks Commission:

George N. Speal  
Chairman

Robert Mitton  
General Manager

Steve Gourlay  
Co-ordinator  
Finance and Administration

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